FitchRatings

Guatemala

This report does not constitute a new rating action for this issuer. It provides more detailed credit analysis than the previously published Rating Action Commentary, which can be found on www.fitchratings.com.

Key Rating Drivers

Outlook Revised to Positive: Guatemala's Outlook change to Positive from Negative on 26 April reflects better-than-expected fiscal performance, strong economic recovery and structural improvements in tax collection. Fitch Ratings expects that the combination of modest deficits and strong economic growth will keep the debt-to-GDP ratio at low levels, even in a less favourable external environment. Current account surpluses starting in 2016 have pushed international reserves up, improving already-strong external liquidity.

Swift 2021 Fiscal Consolidation: The central government deficit fell sharply to 1.2% of GDP in 2021 from 4.9% in 2020, driven by a historic 28% growth in revenue, which reflected structural improvements in tax administration. The tax agency has made major strides in improving tax compliance via better controls at the border and seaports, targeted taxpayer audits, and expanded electronic invoicing.

Modest Widening of the Deficit: Fitch expects that the central government deficit will rise to 2.2% of GDP in 2022, which incorporates a supplemental infrastructure bill (0.4% of GDP) and temporary energy subsidies (0.2% of GDP), both passed by congress in March. For 2023, Fitch's baseline assumes the deficit will remain in line with 2022; however, presidential elections in June 2023 could put upward pressure on expenditures.

Deposit Buffer Limits Borrowing: Debt-to-GDP fell to 28.5% of GDP in 2021 after peaking at 29.2% in 2020. Strong revenue collections and issuance of USD1 billion (1.2% of GDP) in Eurobonds in 2021 resulted in an accumulation of 1.8% of GDP in deposits. The government plans to use around half of this deposit accumulation for budgetary financing in 2022.

Fitch expects net external funding of around zero in 2022, as new borrowing is offset by a USD700 million bond due in June. Congress approved a USD500 million (0.5% of GDP) loan from the World Bank on 18 May.

Potential Growth by 2023: The economy grew by 8.0% in 2021, which, after a mild 1.8% contraction in 2020, is one of the region's strongest recoveries. Strong remittances, pent-up investment, high prices for agricultural exports, low interest rates and nearshoring by US companies as a response to supply-chain disruptions were the main drivers of growth. Fitch expects that growth will slow to 3.8% this year and return to potential (3.5%) by 2023.

Current Account Surpluses: Guatemala's current account balance surplus moderated to 2.5% of GDP in 2021 from its record-high 4.9% in 2020. Remittances surged 35% in 2021 to a record high USD15.3 billion (17.8% of GDP), contributing to an even larger 42% growth in imports. Fitch projects that the current account surplus will moderate in 2022 to 1.5% of GDP due to strong imports and more moderate growth in remittances.

Reserve Build-Up: The central bank (Banguat) has continued to accumulate reserves as a result of strong FX inflows. Reserve adequacy is very high, representing 8.3 months of current external payments (CXP) in 2021. Banguat estimates that the exchange rate is in line with fundamentals, while the IMF estimates a substantial undervaluation in the presence of a current-account surplus.

Accommodative Monetary Policy: Banguat has not initiated a tightening cycle due to the low inflation and relatively strong currency, keeping its policy rate (1.75%) unchanged since June 2020. However, in light of the closed output gap, continuing effects of global price pressures, high domestic credit growth and the start of rate hikes by the U.S. Fed, policy tightening is likely needed in order to keep expectations anchored going forward.

Ratings

Foreign Currency	
Long-Term IDR	BB-
Short-Term IDR	B
Local Currency	
Long-Term IDR	BB-
Short-Term IDR	B
Country Ceiling	BB
Outlooks	
Long-Term Foreign-Currency IDR	Positive
Long-Term Local-Currency IDR	Positive

Rating Derivation

Component	
Sovereign Rating Model (SRM)	BB
Qualitative Overlay (QO)	-1
Structural features	-1
Macroeconomic	0
Public finances	0
External finances	0
Long-Term Foreign-Currency IDR	BB-

Source: Fitch Ratings

Data

	2021
GDP (USDbn)	86
Population (m)	18.3

Source: Fitch Ratings

Applicable Criteria

Sovereign Rating Criteria (April 2022)
Country Ceilings Criteria (July 2020)

Related Research

Fitch Revises Guatemala's Outlook to Positive; Affirms Ratings at 'BB-' (April 2022)
Global Economic Outlook (March 2022)
Guatemala Deficit to Widen in 2022 Despite Strong 2021 (December 2021)
Interactive Sovereign Rating Model
Fitch Fiscal Index - Analytical Tool
Click here for more Fitch Ratings content on Guatemala

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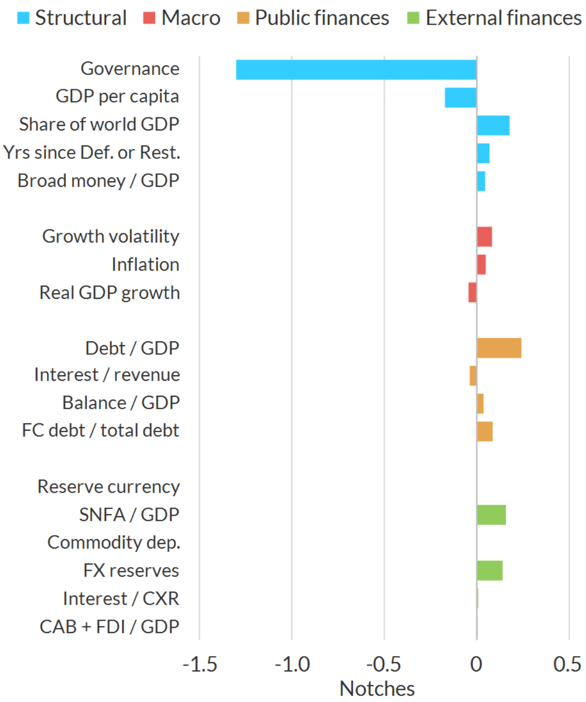
Rating Summary

Long-Term Foreign-Currency Issuer Default Rating: BB-

Sovereign Rating Model: BB

Contribution of variables, relative to BB Median



Qualitative Overlay: -1

Adjustments relative to SRM data and output

Structural features: -1 notch, to reflect congressional fragmentation and gridlock that has previously impeded the passage of the budget and limits the government's ability to pass reforms.

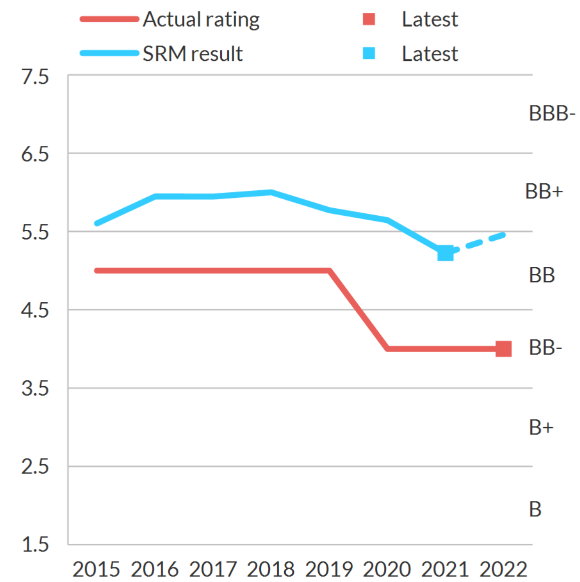
Macroeconomic outlook, policies and prospects: No adjustment.

Public finances: No adjustment.

External finances: No adjustment.

Note: See Peer Analysis table for summary data, including rating category medians; see the Full Rating Derivation table for detailed SRM data.
Source: Fitch Ratings

Sovereign Rating Model Trend



Rating Derivation History (last 10 reviews)

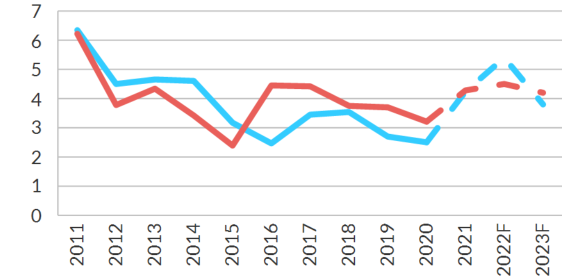
Review Date	LT FC IDR	SRM Result[ab]	QO S	M	PF	EF
Latest	BB-	BB	-1	0	0	0
5 May 2021	BB-	BB	-1	0	0	0
1 Dec 2020	BB-	BB	-1	0	0	0
17 Nov 2020	BB-	BB	-1	0	0	0
3 Apr 2020	BB-	BB+	-1	0	-1	0
11 Apr 2019	BB	BB+	-1	0	0	0
17 Apr 2018	BB	BB+	-1	0	0	0
19 Apr 2017	BB	BB	0	0	0	0
29 Apr 2016	BB	n.a.	n.a.	n.a.	n.a.	n.a.
19 Jun 2015	BB	n.a.	n.a.	n.a.	n.a.	n.a.

[a] The latest rating uses the SRM result for 2021 in the chart (this will roll forward to 2022 in July 2022).
[b] Historical SRM results in this table may differ from the chart, which is based on our latest data, due to data revisions.
Abbreviations: LT FC IDR = Long-Term Foreign-Currency Issuer Default Rating; SRM = Sovereign Rating Model; QO = Qualitative Overlay
Source: Fitch Ratings

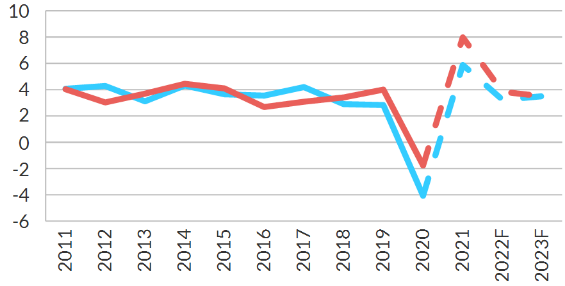
Peer Analysis

Guatemala BB Median

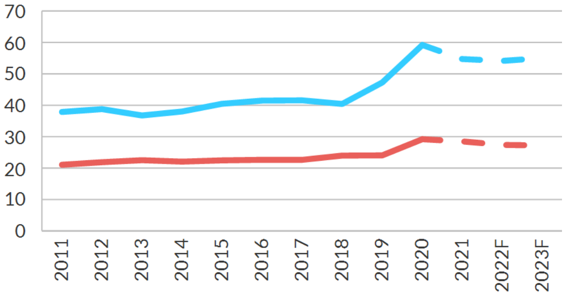
Consumer Price Inflation
(annual avg, %)



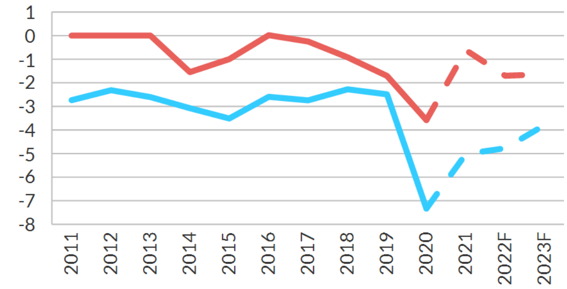
Real GDP Growth
(%)



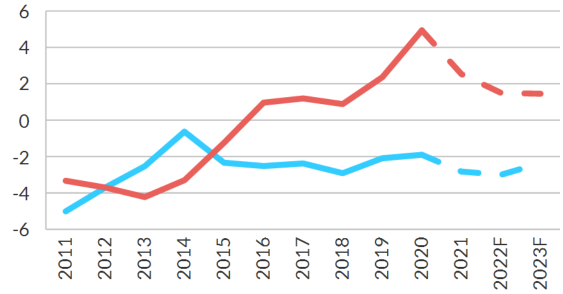
Gross General Government Debt
(% GDP)



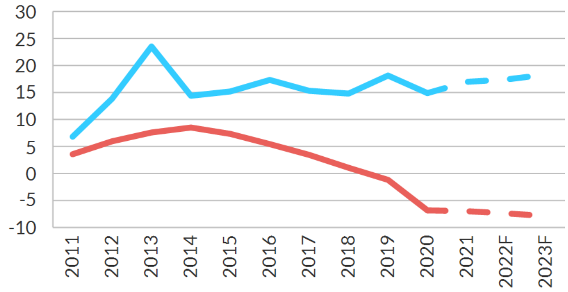
General Government Balance
(% GDP)



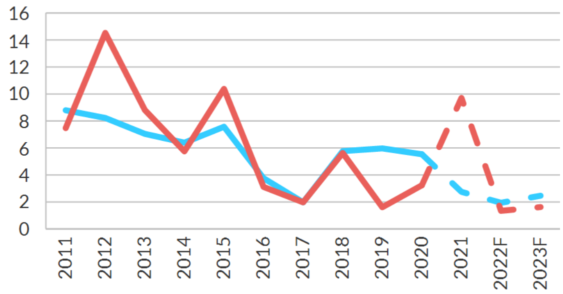
Current Account Balance
(% GDP)



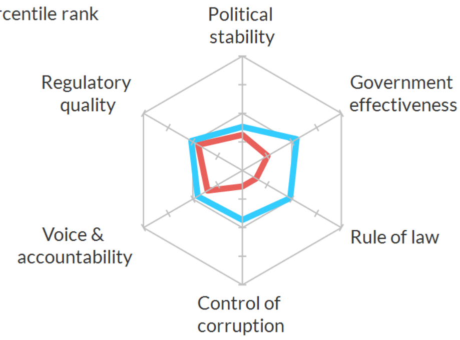
Net External Debt
(% GDP)



Real Private-Sector Credit Growth
(%)



Governance Indicators
Percentile rank



Source: Fitch Ratings, Statistical Office, Ministry of Finance, IMF, World Bank

Peer Analysis

2021[a]	Guatemala	BB median	B median	BBB median
Structural features				
GDP per capita (USD) [SRM]	4,710	5,780	4,084	13,389
Share in world GDP (%) [SRM]	0.1	0.0	0.0	0.0
Composite governance indicator (percentile, latest) [SRM][b]	27.4	45.0	37.2	59.0
Human development index (percentile, latest)	32.9	53.5	35.8	67.3
Broad money (% GDP) [SRM]	60.9	47.8	36.7	61.1
Private credit (% GDP, 3-year average)	37.6	38.7	26.3	57.5
Dollarisation ratio (% bank deposits, latest)	19.1	40.5	30.2	16.6
Bank system capital ratio (% assets, latest)	17.3	16.3	16.1	15.5
Macroeconomic performance and policies				
Real GDP growth (%, 3-year average) [SRM]	3.4	4.0	4.3	3.5
Real GDP growth volatility (complex standard deviation) [SRM]	2.7	2.9	3.3	3.3
Consumer price inflation (%, 3-year average) [SRM]	4.0	4.8	5.7	3.2
Unemployment rate (%)	4.0	8.8	8.2	7.9
Public finances (general government)[c]				
Balance (% GDP, 3-year average) [SRM]	-2.0	-2.7	-3.7	-2.3
Primary balance (% GDP, 3-year average)	-0.4	-0.6	-1.4	-0.3
Interest payments (% revenue, 3-year average) [SRM]	9.9	9.0	8.7	7.0
Gross debt (% revenue, 3-year average)	184.7	158.4	226.2	141.2
Gross debt (% GDP, 3-year average) [SRM]	28.4	39.5	50.0	36.1
Net debt (% GDP, 3-year average)	18.5	32.6	42.3	30.2
FC debt (% gross debt, 3-year average) [SRM]	48.0	61.3	64.0	37.0
External finances[c]				
Current account balance (% GDP, 3-year average)	3.0	-2.7	-3.9	-2.0
Current account balance + net FDI (% GDP, 3-year avg.) [SRM]	4.9	0.7	-1.3	0.3
Commodity dependence (% CXR) [SRM]	21.6	21.6	32.1	19.0
Gross external debt (% GDP, 3-year average)	30.5	44.8	48.9	55.4
Net external debt (% GDP, 3-year average)	-7.1	10.7	19.4	9.7
Gross sovereign external debt (% GXD, 3-year average)	46.2	43.7	57.9	30.2
Sovereign net foreign assets (% GDP, 3-year average) [SRM]	11.3	-2.4	-15.3	2.1
External interest service (% CXR, 3-year average) [SRM]	2.9	4.0	3.8	4.2
Foreign-exchange reserves (months of CXP) [SRM]	8.3	4.4	3.9	4.9
Liquidity ratio	448.6	139.2	153.2	134.0

[a] 3-year averages are centred on this year. Fitch does not forecast indicators labelled 'latest', meaning data may be lagging.
[b] Composite of all six World Bank Worldwide Governance Indicators (see chart on the previous page).
[c] See Appendix 2: Data Notes and Conventions for details of data treatment for public finances and external finances.
Source: Fitch Ratings, Statistical Office, Ministry of Finance, IMF, World Bank, United Nations

Supplementary Information

BSI / MPI = bb / 1. About the BSI and MPI: Fitch's bank systemic indicator (BSI) equates to a weighted average Viability Rating. The macro-prudential risk indicator (MPI) focuses on one potential source of financial stress, ranging from '3' – high potential vulnerability to financial stress over the medium term based on trends in credit expansion, equity and property prices and real exchange rates – to '1' – low likelihood. For more information, refer to Fitch Ratings' most recent Macro-Prudential Risk Monitor report.

Year cured from the most recent default or restructuring event, since 1980 = 1993. Sovereign bond restructuring before maturity.

The de facto exchange rate regime, based on the latest IMF Annual Report on Exchange Arrangements and Exchange Restrictions report, is 'Stabilised arrangement'.

Rating Factors

Strengths

- Government debt-to-GDP ratio is below the 'BB' median. Low debt amortisations, long repayment maturities and legal prioritisation of debt service reduce financing risks.
- Government financing needs are lower than peers'. The sovereign benefits from budget support from multilaterals and foreign and domestic bond markets access.
- Strong record of prudent monetary policies supports broad macroeconomic stability.
- One of the highest international liquidity ratios in the 'BB' category, reflecting high foreign reserves and moderate external amortisations.

Weaknesses

- World Bank Worldwide Governance Indicators below the 'BB' and 'B' medians. Rule-of-law percentile rank is 13.9%, the third-lowest in Fitch-rated Americas after Nicaragua and Bolivia.
- Human development indicators are below the 'BB' and 'B' medians. GDP per capita compares unfavourably with rating peers.
- The revenue to GDP is low when compared to rating peers.
- Legislative gridlock in the past has made it difficult to secure congressional approval of budgets or external loans.

Rating	Sovereign
BB	Aruba
	Georgia
	Greece
	Namibia
	Vietnam
BB-	**Guatemala**
	Bangladesh
	Brazil
	Cote d'Ivoire
	Dominican Republic
	Jordan
	Oman
	South Africa
	Uzbekistan
B+	Armenia
	Bahrain
	Benin
	Egypt
	Jamaica
	Kenya
	Rwanda
	Seychelles
	Turkey
	Turkmenistan
	Uganda

Source: Fitch Ratings

Rating Sensitivities

Factors that Could, Individually or Collectively, Lead to Negative Rating Action/Downgrade

- **Public Finance:** A large widening of the deficit, for example, caused by an erosion in the recent gains in tax collection;
- **Structural:** Political gridlock that constrains government financing flexibility and effective policy making, such as failure to pass annual budgets and/or interruptions in financing;
- **Macro:** Lower-than-expected growth performance or weaker medium-term growth prospects; for example, caused by lower remittances, social unrest and/or governability challenges.

Factors that Could, Individually or Collectively, Lead to Positive Rating Action/Upgrade

- **Public Finances:** Entrenchment of institutional improvements that support improved tax collection;
- **Macro:** Robust economic growth that keeps the debt-to-GDP ratio on a sustainable path, for example, by effective investment in infrastructure and higher productivity;
- **Structural:** Improvements in governance and human development indicators relative to peers, particularly on control of corruption and rule of law.

Forecast Summary

	2018	2019	2020	2021	2022F	2023F
Macroeconomic indicators and policy						
Real GDP growth (%)	3.4	4.0	-1.8	8.0	3.8	3.5
Unemployment (%)	2.7	2.3	5.0	4.0	3.0	3.0
Consumer price inflation (annual average % change)	3.8	3.7	3.2	4.3	4.5	4.2
Policy interest rate (annual average, %)	5.2	5.0	4.6	4.1	4.5	4.5
General government balance (% GDP)	-0.9	-1.7	-3.6	-0.6	-1.7	-1.6
Gross general government debt (% GDP)	24.0	24.1	29.2	28.5	27.4	27.2
GTQ per USD (annual average)	7.5	7.7	7.7	7.7	7.7	7.8
Real private credit growth (%)	5.6	1.6	3.2	9.7	1.3	1.6
External finance						
Merchandise trade balance (USDbn)	-8.0	-8.0	-6.3	-10.9	-14.2	-15.2
Current account balance (% GDP)	0.9	2.4	4.9	2.5	1.5	1.5
Gross external debt (% GDP)	33.7	32.4	32.0	31.1	28.5	26.6
Net external debt (% GDP)	1.1	-1.2	-6.8	-7.0	-7.4	-7.9
External debt service (principal + interest, USDbn)	2.6	2.6	2.4	2.4	3.2	2.4
Official international reserves including gold (USDbn)	12.6	14.8	18.5	20.9	22.2	23.5
Gross external financing requirement (% int. reserves)	8.5	-1.4	-15.7	-3.4	4.1	0.0
Real GDP growth (%)						
US	2.9	2.3	-3.4	5.7	3.5	1.6
China	6.7	6.0	2.2	8.1	4.8	5.1
Eurozone	1.9	1.3	-6.4	5.3	3.0	2.3
World	3.2	2.6	-3.3	5.9	3.5	2.8
Oil (USD/barrel)	71.5	64.1	43.3	70.6	100.0	80.0

Source: Fitch Ratings

Sources and Uses

Public Finances (Central Government)

(GTQbn)	2022	2023
Uses	**25.5**	**23.3**
Budget deficit	15.7	17.2
MLT amortisation	9.8	6.1
Domestic	1.5	3.3
External	8.3	2.7
Sources	**25.5**	**23.3**
Gross borrowing	19.2	23.3
Domestic	11.5	15.5
External	7.7	7.8
Privatisation	0.0	0.0
Other	0.0	0.0
Change in deposits (- = increase)	6.2	0.0

Source: Fitch Ratings

External Finances

(USDbn)	2022	2023
Uses	**0.8**	**0.0**
Current account deficit	-1.4	-1.5
MLT amortisation	2.3	1.5
Sovereign	1.1	0.4
Non-sovereign	1.2	1.1
Sources	**0.8**	**0.0**
Gross MLT borrowing	2.3	1.5
Sovereign	1.0	1.0
Non-sovereign	1.3	0.5
FDI	0.8	0.8
Other	-1.0	-1.0
Change in FX reserves (- = increase)	-1.3	-1.3

Source: Fitch Ratings

Credit Developments

Fiscal Deficit Set to Widen in 2022 After Swift 2021 Improvement

The record 28% growth in revenue and the phase-out of extraordinary pandemic-related social transfers meant that the central government deficit fell sharply to 1.2% of GDP in 2021 (2020: 4.9%). Revenue growth was driven by the strong economic rebound and a one-off receipt from a large transaction in the telecommunications sector (0.2% of GDP), but likely also reflects structural improvements in tax administration. The tax agency (SAT) has made important strides in improving tax compliance via: 1) better controls at the border and seaports that improve import tax collection, 2) targeted taxpayer audits, 3) expanded electronic invoicing. The broader general government deficit in 2021 was 0.6% of GDP below the 'BB' median of 5.0% – down from 3.6% in 2020.

Fitch expects that central government deficit will rise to 2.2% of GDP in 2022. The government secured legislative approval of the 2022 budget after two consecutive years without one. The budget projects a deficit of 2.8% of GDP, but we expect revenue to be stronger and assume an expenditure execution of about 95%. Included in our deficit projection are the supplemental infrastructure bill (0.4% of GDP) and temporary energy subsidies (0.2% of GDP), both passed by congress in March. Fitch expects some normalisation in tax collections after the surge in 2021. Strong results from 1Q22 indicate that part of the improvement is structural. For 2023 our baseline is that the deficit will remain in line with 2022; however, presidential elections in June 2023 could put upward pressure on expenditure.

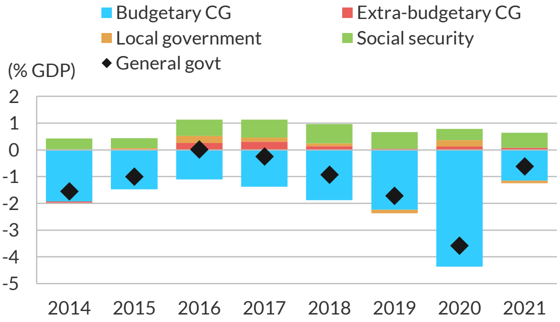
Amidst strong revenue collection in 2021, the government issued USD1 billion (1.2% of GDP) in Eurobonds in October 2021, resulting in an accumulation of 1.8% of GDP in deposits. It plans to use around half of this deposit accumulation in 2022 for budgetary financing. Fitch expects net external funding to be -0.1% of GDP in 2022, driven by a USD700 million (0.8% of GDP) bond due in June. Congress approved a USD500 million (0.5% of GDP) loan from the World Bank on 18 May.

The debt-to-GDP peaked in 2020 at 29.2% but fell to 28.5% in 2021. Fitch expects it will fall to 27.2% by 2023, pushed down by robust economic growth and moderate deficits.

New General Government Data

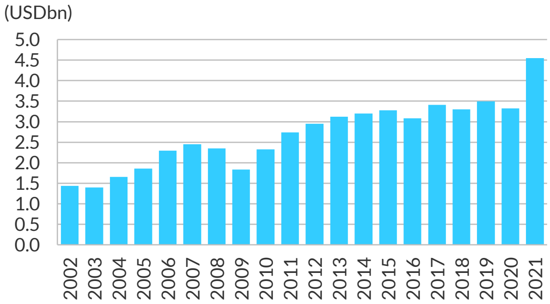
Fitch's figures now incorporate general government fiscal data now being compiled by the Ministry of Finance. General government figures include the balances of the budgetary central government, extra-budgetary central government entities, local governments, and social security. The general government deficit is lower than the headline central government balance, mostly due to surpluses at social security averaging 0.6% of GDP in 2015–2021. Revenue is higher by an average of 3.8% of GDP, while interest payments are smaller by an average of 0.2% of GDP due to consolidation of payments within the general government, which means a substantially lower interest/revenue ratio (14.0% for central government versus 9.6% for general government in 2021).

General Government Finances



Source: Fitch Ratings, Minfin

Capital Goods Imports



Source: Fitch Ratings, Banguat

2021 Recovery Stronger than Peers

The economy grew by 8.0% in 2021, which was particularly strong considering that the 2020 contraction was mild at 1.8%. Guatemala's 2021 real GDP was 6.1% above its pre-pandemic 2019 level, making it the strongest recovery in Latin America (after Nicaragua, which had experienced a deep contraction prior to the pandemic) and well above the 'BB' median of 1.1%. Strong remittances from the US were a major driver of growth, along with pent-up investment, high prices for agricultural exports, low interest rates and nearshoring by US companies as a response to supply-chain disruptions.

Fitch expects growth to cool down in 2022 to 3.8% and return to potential (3.5%) by 2023. Central government capital investment will support growth in 2022 as Fitch projects an increase of 29%. One of the capital projects starting this year is the first public-private partnership in Guatemala, building a highway between Escuintla and Puerto Quetzal. This was approved by congress in November 2021, with a total investment of USD125 million (0.1% of GDP). Higher oil prices (17% of imports in 2021) pose a downside risk to growth, to the extent this erodes household purchasing power. Monetary tightening by the US Federal Reserve could pose a challenge to growth should it result in faster-than-expected domestic policy tightening, but presently this risk appears contained in the context of Guatemala's strong external position.

Inflation Rises Amid Global Pressures, But Remains Subdued in Relative Terms

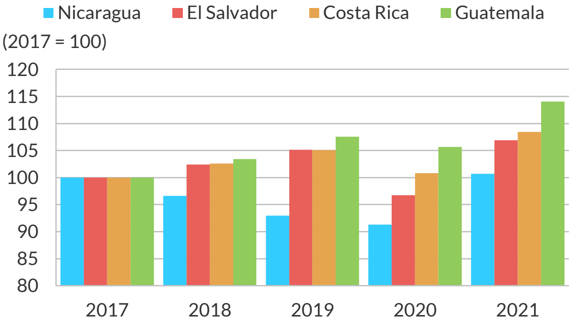
Inflation was 3.1% yoy at end-2021 and rose to 4.6% by April 2022, demonstrating a much more subdued dynamic than regional peers. The lower inflation in Guatemala is partly explained by favourable local climactic conditions that have contained pressure on food prices, which have an outsized 27% share in the CPI basket. Inflation expectations at the 12- and 24-month horizons remain anchored around the 4% (+/- 1pp) target. Fitch expects domestic inflation will rise to 4.7% by year-end, however, risks are to the upside as oil could climb above our baseline.

The CPI basket is from 2010 and needs to be updated. The survey to update the basket, scheduled for March 2020, had to be postponed due to the pandemic. The national statistical agency is now working on producing a new basket with expected publication next year.

The Banguat has kept its policy rate at 1.75% since June 2020, and has not yet initiated a tightening cycle as Guatemala has low inflation and a relatively strong currency. However, policy tightening is likely to be needed due to the continuing effects of global price pressures, high domestic credit growth and the initiation of rate hikes by the US Fed.

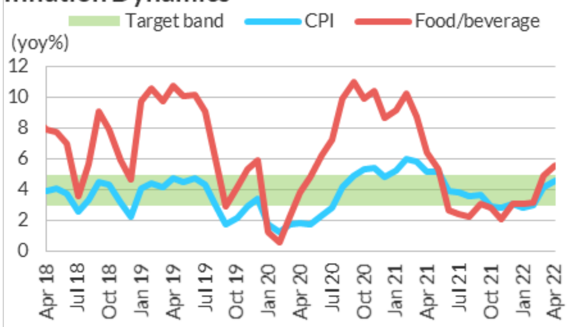
Growth in private credit rose to 14.3% yoy in March 2022, its highest rate in a decade. Credit growth has recently outpaced deposit growth, but comes after a period of substantial liquidity build-up during the pandemic as deposits surged and credit remained flat. Banking-sector metrics remain sound: liquidity and capitalisation levels are high, and non-performing loan ratios have stayed low amid the phase-out of regulatory forbearance measures over the course of 2021.

Real GDP



Source: Fitch Ratings, central banks

Inflation Dynamics



Source: Fitch Ratings, INE

Remittances Drive A Major Build-up in External Liquidity

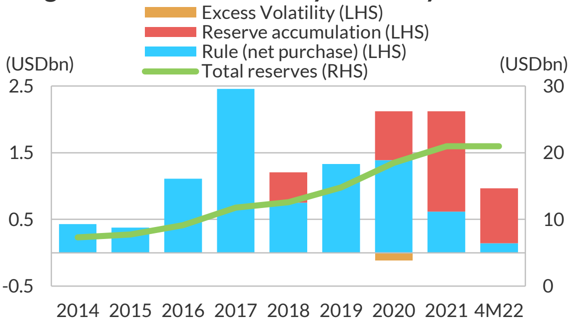
Guatemala's current account balance surplus moderated to 2.5% of GDP in 2021 (close to its pre-pandemic 2019 level) from its record high of 4.9% in 2020. Remittances surged 35% in 2021 to a record-high USD15.3 billion (17.8% of GDP), driven by the strong rebound in activity and Hispanic employment in the US. This contributed to an even larger 42% growth in imports. Exports grew at a healthy pace ofby 23% due to both volume and price effects. FDI inflows rose to a record-high USD3.5 billion due to the sale of a cell phone operator for USD2.2 billion, but net of this transaction remained roughly in line with the recent average of around USD1 billion (1.5% of GDP).

Fitch projects that the current account surplus will moderate in 2022 to 1.5% of GDP driven down by strong imports. We expect imports to grow 19% moderating the growth they had last year Remittances will grow by 15% coming closer to its historic average growth rate and exports will grow by 9% still riding the strong demand for food and textiles.

Banguat has continued to accumulate reserves as a result of strong FX inflows. Accumulation of FX has taken an increasingly discretionary nature since 2020, given that most FX purchases were made through its reserve-building programme (which it can execute at its discretion up to pre-specified amounts) rather than its intervention rule (triggered when the exchange-rate deviates from its five-day average above a specific threshold). As of April 2022, Banguat has already carried out most of the USD1 billion in FX purchases authorised for reserve-building. Reserve adequacy is very high, representing 40% of broad money and 8.3 months of current external payments (CXP) in 2021.

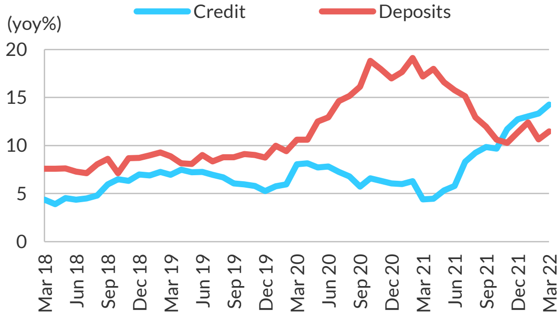
The substantial reserve buildup reflects the difficult balance Banguat faces in allowing for greater exchange-rate flexibility consistent with its inflation-targeting regime, while preventing remittance-fuelled appreciation pressures from eroding competitiveness for its tradeable sectors. Banguat estimates that the exchange rate is in line with fundamentals, while the IMF estimates a substantial undervaluation in the presence of a current-account surplus.

Banguat FX Intervention by Modality



Source: Fitch Ratings, Banguat

Private Credit and Deposit Trends



Source: Fitch Ratings, Banguat

This is a text exhibit 'Key Credit Developments 4 Text'. See instructions in side pane.

This is an image exhibit 'RR.CW-Key Credit Developments Chart 7'. See instructions in side pane.

This is an image exhibit 'RR.CW-Key Credit Developments Chart 8'. See instructions in side pane.

This is a text exhibit 'Key Credit Developments 5 Text'. See instructions in side pane.

Public Debt Dynamics

Fitch projects general government debt will remain broadly stable in the forecast period, below 30% of GDP. Debt dynamics are driven by the deficit at the central government, which we assume will widen moderately, while the social security surplus (projected at 0.6% of GDP) represents a stock-flow adjustment corresponding to deposit accumulation. We expect that growth will return to potential by 2023, that the exchange rate will remain broadly stable, and that the funding mix and local and external borrowing costs move in line with global benchmarks.

Debt Dynamics - Fitch's Baseline Assumptions

	2020	2021	2022	2023	2024	2025	2026
Gross general government debt (% of GDP)	29.2	28.5	27.4	27.2	27.7	28.1	28.5
Primary balance (% of GDP)	-2.1	0.9	-0.2	-0.2	-0.1	0.0	0.0
Real GDP growth (%)	-1.8	8.0	3.8	3.5	3.5	3.5	3.5
Average nominal effective interest rate (%)	6.4	5.9	5.8	5.8	5.8	5.7	5.7
GTQ/USD (annual avg)	7.7	7.7	7.7	7.8	7.8	7.8	7.8
GDP deflator (%)	2.7	2.8	5.1	4.3	3.0	3.0	3.0
Stock-flow adjustments (% of GDP)	0.0	0.0	0.5	-0.1	-0.6	-0.6	-0.6

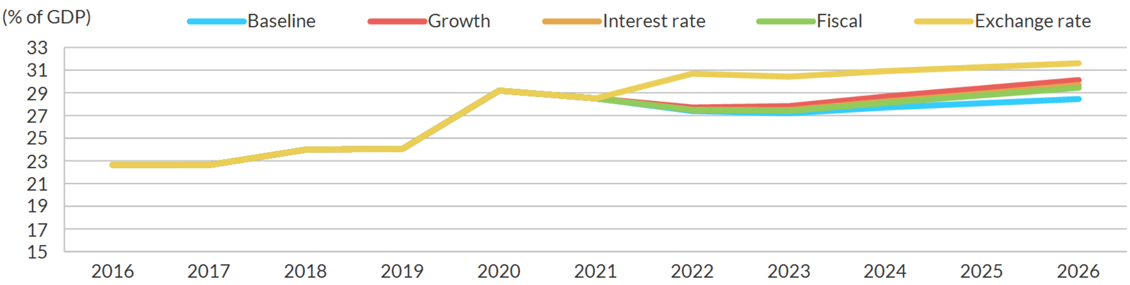
Source: Fitch Ratings

Debt Sensitivity Analysis: Fitch's Scenario Assumptions

Growth	Average growth is 2.4% between 2022 and 2026
Interest rate	Marginal interest rate 250bp higher than baseline
Fiscal	General government primary deficit of 0.3% between 2022 and 2026
Exchange rate	30% devaluation at end-2022

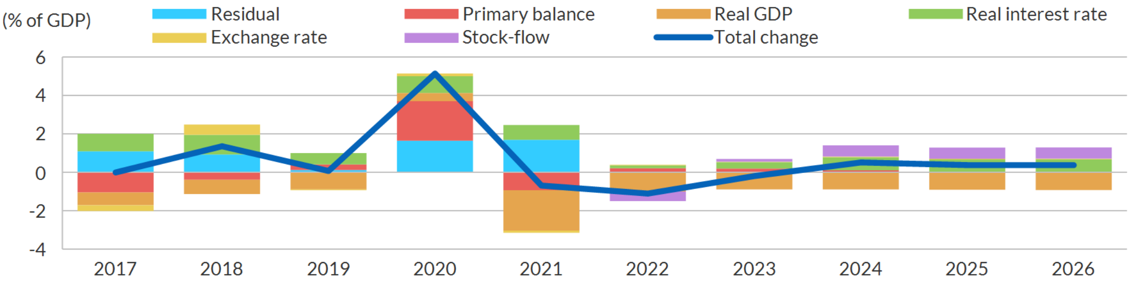
Source: Fitch Ratings

Sensitivity Analysis
Gross general government debt



Source: Fitch Ratings, Fitch Debt Dynamics Model

Baseline Scenario: Debt Creating Flows
Change in gross general government debt



Source: Fitch Ratings, Fitch Debt Dynamics Model

About the Public Debt Dynamics

Fitch uses stylised projections for a sovereign's gross general government debt/GDP ratio to illustrate the sustainability of its debt burden and its sensitivity to economic growth, the cost of borrowing, fiscal policy and the exchange rate.

Data Tables

General Government Summary

(% GDP)	2015	2016	2017	2018	2019	2020	2021	2022F	2023F
Revenue	14.8	15.2	15.3	15.2	15.0	14.4	16.2	15.6	15.6
Expenditure	15.8	15.2	15.5	16.1	16.8	18.0	16.8	17.3	17.3
o/w interest payments	1.4	1.3	1.3	1.3	1.4	1.5	1.5	1.5	1.5
Interest payments (% revenue)	9.3	8.7	8.5	8.6	9.4	10.6	9.6	9.5	9.3
Primary balance	0.4	1.3	1.0	0.4	-0.3	-2.1	0.9	-0.2	-0.2
Overall balance	-1.0	0.0	-0.3	-0.9	-1.7	-3.6	-0.6	-1.7	-1.6
Gross government debt	22.5	22.6	22.6	24.0	24.1	29.2	28.5	27.4	27.2
% of government revenue	152.0	148.9	148.3	157.8	159.9	202.9	176.3	175.0	174.3
Domestic debt	12.9	13.1	13.8	15.0	14.7	18.0	17.9	17.8	18.0
External debt	9.5	9.6	8.8	9.0	9.4	11.2	10.6	9.6	9.2
Local currency	10.5	10.5	11.4	12.6	12.5	15.7	15.3	15.4	15.7
Foreign currency	12.0	12.2	11.2	11.4	11.6	13.5	13.2	12.0	11.5
Central government deposits	5.9	7.2	8.0	8.7	8.3	9.6	10.8	9.1	8.4
Net government debt	16.6	15.5	14.7	15.3	15.8	19.6	17.7	18.3	18.8
Financing	1.0	-0.0	0.3	0.9	1.7	3.6	0.6	1.7	1.7
Domestic borrowing	0.4	0.6	0.9	1.1	0.6	3.1	2.1	0.9	1.0
External borrowing	0.8	0.4	-0.1	0.1	0.8	1.4	0.3	-0.1	0.6
Other financing	-0.2	-1.0	-0.5	-0.3	0.3	-0.9	-1.8	0.9	0.0
Change in deposits (- = increase)	0.0	-0.8	-0.6	-0.2	0.4	-0.8	-1.8	0.9	0.0
Privatisation	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other	-0.2	-0.2	0.1	-0.0	-0.1	-0.1	0.0	0.0	0.0

Source: Fitch Ratings, Ministry of Finance

Balance of Payments

(USDbn)	2015	2016	2017	2018	2019	2020	2021	2022F	2023F
Current account	-0.8	0.6	0.9	0.6	1.8	3.8	2.2	1.4	1.5
% GDP	-1.2	1.0	1.2	0.9	2.4	4.9	2.5	1.5	1.5
Goods	-6.4	-6.1	-6.8	-8.0	-8.0	-6.3	-10.9	-14.2	-15.2
Services	0.1	0.2	0.3	0.2	0.0	-0.3	-1.3	-1.1	-0.9
Primary income	-1.5	-1.4	-1.5	-1.5	-1.4	-1.5	-1.7	-1.7	-1.8
Secondary income	7.1	7.9	8.9	10.0	11.2	11.9	16.1	18.5	19.4
Capital account	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Financial account	-1.1	0.4	0.4	0.4	1.4	3.2	2.0	0.9	1.0
Direct investment	-1.0	-1.0	-0.9	-0.8	-0.8	-0.8	-3.3	-0.8	-0.8
Portfolio investment	-0.0	-0.6	-0.8	0.1	-0.7	-0.3	-1.9	-0.3	-0.3
Derivatives	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other investments	-0.5	0.5	-0.5	0.1	1.1	1.1	4.5	0.7	0.7
Net errors and omissions	-0.3	-0.3	-0.5	-0.3	-0.4	-0.6	-0.1	-0.5	-0.5
Change in reserves (+ = increase)	0.5	1.4	2.6	1.0	1.8	3.2	2.8	1.3	1.3
International reserves, incl. gold	7.7	9.2	11.8	12.6	14.8	18.5	20.9	22.2	23.5
Liquidity ratio (%)	201.3	243.6	257.2	287.3	304.6	364.4	448.6	437.2	540.1
Memo									
Current external receipts (CXR)	20.1	21.2	23.1	24.4	26.0	25.8	32.4	36.3	37.7
Current external payments (CXP)	20.9	20.6	22.3	23.8	24.1	22.0	30.3	34.9	36.3
CXR growth (%)	3.0	5.3	9.0	5.7	6.3	-0.6	25.7	12.0	3.9
CXP growth (%)	-2.6	-1.6	8.3	6.8	1.5	-8.9	37.7	15.4	3.9
Gross external financing requirement	2.4	1.0	1.0	1.0	-0.2	-2.3	-0.6	0.8	0.0
% International reserves	32.3	12.8	10.4	8.5	-1.4	-15.7	-3.4	4.1	0.0
Net external borrowing	1.0	0.9	1.4	-0.3	-0.2	-0.1	2.0	0.1	0.1

Source: Fitch Ratings, IMF

External Debt and Assets

(USDbn)	2015	2016	2017	2018	2019	2020	2021	2022F	2023F
Gross external debt	22.2	23.4	25.0	24.7	25.0	24.9	26.7	26.8	26.8
% GDP	35.8	35.5	34.9	33.7	32.4	32.0	31.1	28.5	26.6
% CXR	110.6	110.5	108.3	101.2	96.2	96.3	82.4	73.7	71.1
Short-term debt (% GXD)	8.2	8.1	9.7	10.4	10.1	10.0	9.3	9.3	9.3
By debtor									
Sovereign	8.0	8.8	9.0	9.0	9.9	11.3	12.5	12.4	13.1
Monetary authorities	0.6	0.8	0.8	0.8	0.8	0.8	1.4	1.4	1.4
General government	7.4	8.0	8.1	8.2	9.1	10.4	11.1	11.0	11.7
Banks	5.7	5.8	6.1	6.3	6.3	6.1	5.9	5.8	5.7
Other sectors	8.5	8.9	9.9	9.4	8.8	7.5	8.3	8.5	8.0
Gross external assets (non-equity)	17.7	19.8	22.6	23.9	25.9	30.2	32.7	33.7	34.8
Sovereign	7.9	9.3	12.0	12.9	15.1	18.8	21.2	22.5	23.8
International reserves, incl. gold	7.7	9.2	11.8	12.6	14.8	18.5	20.9	22.2	23.5
Other sovereign assets	0.2	0.2	0.2	0.3	0.3	0.3	0.3	0.3	0.3
Banks	2.5	2.6	2.7	3.2	3.3	3.5	3.8	4.1	4.5
Other sectors	6.6	7.0	6.9	6.6	6.6	6.9	7.7	7.1	6.5
Net external debt	4.6	3.6	2.5	0.8	-0.9	-5.3	-6.0	-6.9	-7.9
% GDP	7.3	5.4	3.4	1.1	-1.2	-6.8	-7.0	-7.4	-7.9
Sovereign	0.1	-0.6	-3.1	-3.9	-5.3	-7.5	-8.7	-10.0	-10.7
Banks	3.2	3.2	3.5	3.1	3.1	2.6	2.1	1.7	1.2
Other sectors	1.2	1.0	2.1	1.6	1.3	-0.4	0.6	1.4	1.6
International investment position									
Assets	10.2	11.7	14.4	15.8	18.0	21.9	24.7	26.3	28.0
Liabilities	22.2	23.4	25.0	24.7	25.0	24.9	26.7	26.8	26.8
Net	-12.0	-11.7	-10.6	-8.9	-6.9	-2.9	-2.0	-0.4	1.2
Net sovereign	0.6	1.5	4.0	4.9	6.2	8.5	9.7	11.0	11.7
% GDP	0.9	2.3	5.6	6.7	8.1	11.0	11.3	11.7	11.6
External debt service (principal + interest)	2.3	2.4	2.7	2.6	2.6	2.4	2.4	3.2	2.4
Interest (% CXR)	3.6	3.6	3.7	3.9	3.7	3.5	2.6	2.5	2.4

Source: Fitch Ratings, central bank, IMF, World Bank

External Debt Service Schedule

(USDm)	2021	2022	2023	2024	2025	2026	2027+
Sovereign: Total debt service	**758.1**	**1,528.3**	**773.5**	**784.6**	**778.5**	**1,433.4**	**11,059.6**
Amortisation	380.2	1,073.1	353.2	379.5	389.9	1,075.9	7,825.5
Official bilateral	32.8	35.0	33.7	33.2	30.9	27.8	203.7
Multilateral	347.4	338.1	319.6	346.3	359.0	348.2	2,691.8
Bonds	-	700.0	-	-	-	700.0	4,930.0
Interest	378.0	455.2	420.3	405.2	388.7	357.5	3,234.1

Source: Fitch Ratings, Ministry of Finance

Full Rating Derivation

Long-Term Foreign-Currency Issuer Default Rating (SRM + QO)	BB-

Sovereign Rating Model								Applied Rating[d]	BB
					Model Result and Predicted Rating				5.22 = BB
Input Indicator	Weight (%)	2020	2021	2022	Adjustment to Final Data	Final Data	Coefficient		Output (notches)
Structural features									**2.62**
Governance indicators (percentile)	20.3	n.a.	27.4	n.a.	-	27.4	0.074		2.02
GDP per capita (USD)	13.3	n.a.	4,712	n.a.	Percentile	29.7	0.042		1.24
Nominal GDP (% world GDP)	13.2	n.a.	0.09	n.a.	Natural log	-2.4	0.596		-1.41
Most recent default or restructuring	5.0	n.a.	1993	n.a.	Inverse 0-1[a]	0.0	-2.017		-0.00
Broad money (% GDP)	1.4	n.a.	60.9	n.a.	Natural log	4.1	0.188		0.77
Macroeconomic performance, policies and prospects									**-0.75**
Real GDP growth volatility	5.1	n.a.	2.6	n.a.	Natural log	1.0	-0.815		-0.78
Consumer price inflation	2.9	3.2	4.3	4.5	3-yr avg.[b]	4.0	-0.058		-0.23
Real GDP growth	2.4	-1.5	8.0	3.8	3-yr avg.	3.4	0.076		0.26
Public finances									**-1.46**
Gross general govt debt (% GDP)	8.3	29.2	28.5	27.6	3-yr avg.	28.4	-0.022		-0.62
General govt interest (% revenue)	4.5	10.6	9.6	9.6	3-yr avg.	9.9	-0.043		-0.43
General govt fiscal balance (% GDP)	2.6	-3.6	-0.6	-1.7	3-yr avg.	-2.0	0.048		-0.09
FC debt (% of total general govt debt)	2.4	50.2	48.0	45.9	3-yr avg.	48.0	-0.006		-0.31
External finances									**0.33**
Reserve currency (RC) flexibility	7.8	n.a.	0.0	n.a.	RC score 0 - 4.5[c]	0.0	0.549		0
SNFA (% of GDP)	7.3	11.0	11.3	11.8	3-yr avg.	11.3	0.011		0.13
Commodity dependence	1.1	n.a.	21.6	n.a.	Latest	21.6	-0.004		-0.09
FX reserves (months of CXP)	1.8	n.a.	8.3	n.a.	n.a. if RC score> 0	8.3	0.036		0.30
External interest service (% CXR)	0.4	3.5	2.6	2.5	3-yr avg.	2.9	-0.006		-0.02
CAB + net FDI (% GDP)	0.1	5.9	6.4	2.4	3-yr avg.	4.9	0.001		0.01
Intercept Term (constant across all sovereigns)									**4.49**

[a] Inverse 0-1 scale, declining weight; [b] of truncated value (2%-50%); [c] Declining weight; [d] Sovereign rating committee can override SRM Predicted Rating if a marginal change in the Model Result leads to a notch change which is judged to be temporary or caused by a re-estimation of the SRM, a process that Fitch undertakes on at least an annual basis. Please refer to the Rating Action Commentary for further information when the Applied Rating differs from the Predicted Rating.
Note: This table contains data as at the date of the most recent rating action. There may be minor differences to data presented elsewhere in this report, which may have been updated where appropriate, for example in the event of subsequent data releases.
Source: Fitch Ratings

Qualitative Overlay (notch adjustment, range +/-3)	-1
Structural features	-1
Macroeconomic outlook, policies and prospects	0
Public finances	0
External finances	0

Source: Fitch Ratings

About the SRM and QO

Fitch's SRM is the agency's proprietary multiple regression rating model that employs 18 variables based on three-year centred averages, including one year of forecasts, to produce a score equivalent to a LT FC Issuer Default Rating (IDR). Fitch's QO is a forward-looking qualitative framework designed to allow for adjustment to the SRM output to assign the final rating, reflecting factors within our criteria that are not fully quantifiable and/or not fully reflected in the SRM.

Supplementary Ratings

Local-Currency Rating

Guatemala's Long-Term Local-Currency IDR is in line with the Long-Term Foreign-Currency IDR. Public finances do not represent a strength relative to external finances, and there is no history of preferential treatment of local-currency creditors over foreign-currency creditors.

Country Ceiling

Free trade agreements with Chile, Colombia, Panama and Taiwan; membership to the Dominican Republic-Central America Free Trade Agreement with the US and the Central American Free Trade Agreement with Mexico underpin Guatemala's commitment to the free flow of capital and international trade, supporting the one-notch uplift of the Country Ceiling over the Long-Term Foreign-Currency IDR.

Full Rating History

	Foreign-Currency Rating			Local-Currency Rating			
Date	Long-Term	Short-Term	Outlook/Watch	Long-Term	Short-Term	Outlook/Watch	Country Ceiling
26 Apr 2022	BB-	B	Positive	BB-	B	Positive	BB
01 Dec 2020	BB-	B	Stable	BB-	B	Stable	BB
17 Nov 2020	BB-	B	Watch Negative	BB-	B	Stable	BB
03 Apr 2020	BB-	B	Stable	BB-	B	Stable	BB
11 Apr 2019	BB	B	Negative	BB	B	Negative	BB+
22 Jul 2016	BB	B	Stable	BB	B	Stable	BB+
20 Jun 2014	BB	B	Stable	BB	-	Stable	BB+
11 Jul 2013	BB+	B	Negative	BB+	-	Negative	BBB-
17 Aug 2006	BB+	B	Stable	BB+	-	Stable	BBB-
22 Feb 2006	BB+	B	Stable	BB+	-	Stable	BB+

Source: Fitch Ratings

Appendix 1: Environmental, Social and Governance (ESG)

Credit Relevance Scores

General Issues	Key Sovereign Issues	SRM	QO	Score[a]
Environmental (E)				
GHG Emissions and Air Quality	Emissions and air pollution as a constraint on GDP growth	2	2	2
Energy Management	Energy resource management, including potential for 'stranded assets', affecting exports, government revenues and GDP	3	2	3
Water Resources and Management	Water resource availability and management as a constraint on GDP growth	2	2	2
Biodiversity and Natural Resource Management	Natural resource management, including potential for 'stranded assets', affecting exports, government revenues and GDP	3	2	3
Natural Disasters and Climate Change	Impact of adverse climate trends, and likelihood of and resilience to shocks	3	2	3
Social (S)				
Human Rights and Political Freedoms	Social stability, voice and accountability, regime legitimacy	4	2	4
Human Development, Health and Education	Impact of human development, health and education on GDP per capita and GDP growth	3	2	3
Employment and Income Equality	Impact of unemployment and income equality on GDP per capita, GDP growth and political and social stability	3	2	3
Public Safety and Security	Impact of public safety and security on business environment and/or economic performance	3	2	3
Demographic Trends	Population decline or aging, rapidly rising youth population; pensions sustainability	3	2	3
Governance (G)				
Political Stability and Rights	Political divisions and vested interests; geo-political risks including conflict, security threats and violence; policy capacity: unpredictable policy shifts or stasis	5	4	5
Rule of Law, Institutional & Regulatory Quality, Control of Corruption	Government effectiveness, control of corruption, rule of law, regulatory quality	5	3	5
International Relations and Trade	Trade agreements, membership of international organizations, bilateral relations; sanctions or other costly international actions	3	2	3
Creditor Rights	Willingness to service and repay debt	4	2	4 +
Data Quality and Transparency	Availability, limitations and reliability of economic and financial data, including transparency of public debt and contingent liabilities	3	2	3

Source: Fitch Ratings

About ESG Credit Relevance Scores

The scores signify the credit relevance of the respective E, S and G issues to the sovereign entity's credit rating, according to the following scale:

- 5 – Highly relevant to the rating, a key rating driver with a high weight.
- 4 – Relevant to the rating, a rating driver.
- 3 – Relevant, but only has an impact on the entity rating in combination with other factors.
- 2 – Irrelevant to the entity rating but relevant to the sector (sovereigns).
- 1 – Irrelevant to the entity rating and irrelevant to the sector (sovereigns).

The score for each 'General Issue' is comprised of a component SRM and QO score, and is simply the higher of the two. SRM scores are fixed across all sovereigns as the weights in the SRM are the same for all sovereigns; QO component scores vary across all sovereigns.

All scores of '4' or '5' result in a negative impact on the rating, unless indicated otherwise. Where a positive impact is occurring, the score of '4' or '5' is appended with a '+' symbol. Scores of '3', '2' and '1' do not have a direction of impact assigned.

Please refer to ESG Relevance Scores for Sovereigns for further information on the framework, including 'Sovereign Rating Criteria References' (which identify specific potentially related SRM variables and QO factors for each 'General Issue').

Credit-Relevant ESG Derivation

Guatemala has an ESG Relevance Score of '5' for Political Stability and Rights as World Bank Governance Indicators have the highest weight in Fitch's SRM and are therefore highly relevant to the rating and a key rating driver with a high weight. As Guatemala has a percentile rank below 50 for the respective Governance Indicator, this has a negative impact on the credit profile.

Guatemala has an ESG Relevance Score of '5' for Rule of Law, Institutional & Regulatory Quality and Control of Corruption as World Bank Governance Indicators have the highest weight in Fitch's SRM and are therefore highly relevant to the rating and a key rating driver with a high weight. As Guatemala has a percentile rank below 50 for the respective Governance Indicator, this has a negative impact on the credit profile.

Guatemala has an ESG Relevance Score of '4' for Human Rights and Political Freedoms as the Voice and Accountability pillar of the World Bank Governance Indicators is relevant to the rating and a rating driver. As Guatemala has a percentile rank below 50 for the respective Governance Indicator, this has a negative impact on the credit profile.

Guatemala has an ESG Relevance Score of '4[+]' for Creditor Rights as willingness to service and repay debt is relevant to the rating and is a rating driver for Guatemala, as for all sovereigns. Guatemala has track record of 20+ years without a restructuring of public debt, this has a positive impact on the credit profile.

Except for the matters discussed above, the highest level of ESG credit relevance, if present, is a score of '3'. This means ESG issues are credit neutral or have only a minimal credit impact on the entity(ies), either due to their nature or to the way in which they are being managed by the entity(ies). For more information on Fitch's ESG Relevance Scores, visit www.fitchratings.com/esg.

Appendix 2: Data Notes and Conventions

Acronyms

Acronyms used in the above table and elsewhere in report are: Gross Domestic Product (GDP), Current External Receipts (CXR), Current External Payments (CXP), Current Account Balance (CAB), Foreign Direct Investment (FDI), World Bank Worldwide Governance Indicators (WBGI), Sovereign Rating Model (SRM), Qualitative Overlay (QO). For a full list of indicator definitions, please refer to the most recent Sovereign Data Comparator.

Medians

Medians underlying the SRM relative to rating category chart on the Rating Summary page and as reported in the Peer Analysis table on page 4 are long-term historical medians. These are based on actual data since 2000 for all sovereign-year observations when the sovereign was in the respective rating category at year-end. Current-year ratings and data are excluded.

Chart medians on page 3 are based on data for sovereigns in the respective rating category at the end of each year. Latest ratings are used for the current year and forecast period.

Notes for Guatemala

All data are on a calendar-year basis, which aligns with the domestic fiscal year for this sovereign.

Public finances data referenced in this report relate to the consolidated general government, as per our principal approach, unless specifically noted, or otherwise where cited.

The external balance sheet data referenced in this report are derived from the international investment position dataset, as per our principal approach.

The ratings above were solicited and assigned or maintained at the request of the rated entity/issuer or a related third party. Any exceptions follow below.