MOODY'S RATINGS

CREDIT OPINION

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Update

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Government of Guatemala – Ba1 stable

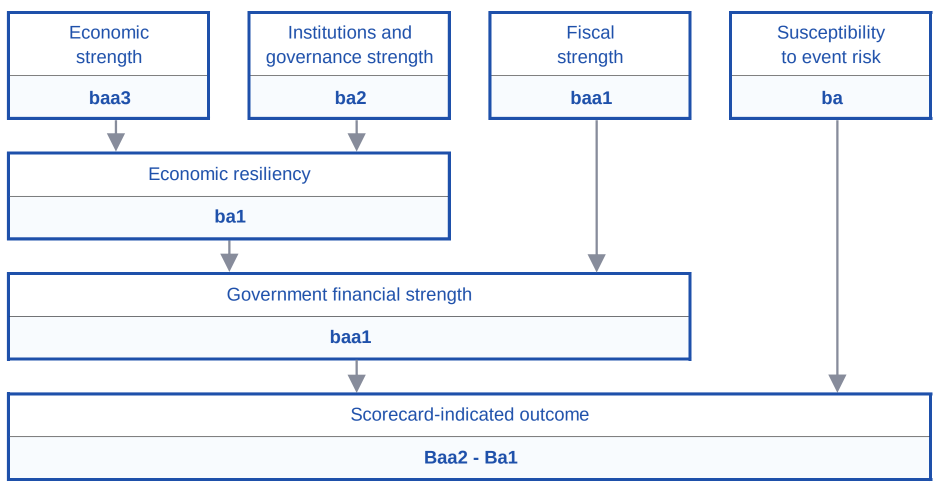
Regular update

Summary

Guatemala's credit profile balances low income levels and comparatively weak institutions against a track record of prudent fiscal management and limited external vulnerability. The country's main credit challenges include a narrow revenue base, a public infrastructure deficit that weakens the country's foreign direct investments (FDI) and export competitiveness, and weak governance indicators. Debt metrics have remained largely stable despite a slight deterioration in 2020 as a result of the coronavirus pandemic. Guatemala's debt-to-GDP ratio of 27% in 2023 was one of the lowest among its Ba-rated peers.

Exhibit 1

Guatemala's credit profile is determined by four factors



Source: Moody's Ratings

Credit strengths

- » History of prudent fiscal management
- » Continued macroeconomic stability despite external shocks
- » Substantial workers' foreign remittances, amounting to almost 20% of GDP

Credit challenges

- » Weak rule of law and governance profile
- » Low government revenue compared with that of its Ba-rated peers
- » Comparatively low income per capita

Rating outlook

The stable outlook captures the government's anti-corruption, transparency and social reform efforts and the focus on public investment to address the economy's infrastructure deficit, as well as a growing track record of legislative reforms enacted in parliament, balanced against instances of institutional infighting that underpin continued political event risk, in addition to high trade and remittance exposures to the US.

Factors that could lead to an upgrade

Upward pressure on the credit profile would emerge if policy measures translate into improved economic conditions, leading to higher GDP growth on a sustained basis. Significant improvement in the country's institutional framework in general, and its governance indicators in particular, including during election cycles, would also support a higher rating.

Factors that could lead to a downgrade

The rating could be downgraded if there is an erosion in the country's long-standing commitment to prudent fiscal management. Worse-than-expected economic performance that leads to persistently higher debt ratios, a weakening of social development indicators or increased political instability would weaken Guatemala's credit profile.

Key indicators

Exhibit 2

Guatemala	2019	2020	2021	2022	2023	2024F	2025F	2026F
Real GDP (% change)	4.0	-1.8	8.0	4.2	3.5	3.7	4.0	4.0
Inflation rate (% change average)	3.7	3.2	4.3	6.9	6.2	2.6	2.9	4.0
Gen. gov. financial balance/GDP (%)[1]	-2.2	-4.9	-1.2	-1.7	-1.3	-1.0	-3.1	-2.8
Gen. gov. primary balance/GDP (%)[1]	-0.6	-3.2	0.6	0.0	0.4	0.6	-1.3	-0.9
Gen. gov. debt/GDP (%)[1]	26.4	31.4	30.6	28.8	27.2	26.6	27.6	28.6
Gen. gov. debt/revenues (%)[1]	235.9	293.7	248.6	229.1	218.1	214.5	217.3	225.2
Gen. gov. interest payment/revenues (%)[1]	14.6	16.1	14.0	13.2	13.1	13.3	13.8	14.6
Current account balance/GDP (%)	2.4	5.0	2.2	1.3	3.1	2.4	1.9	2.5
External debt/CA receipts (%)[2]	72.5	74.5	60.1	48.0	48.0	49.5	51.4	--
External vulnerability indicator (EVI) [3]	37.2	30.8	25.1	22.7	19.3	17.7	20.1	20.0

[1] Central Government
[2] Current Account Receipts
[3] (Short-Term External Debt + Currently Maturing Long-Term External Debt + Total Nonresident Deposits Over One Year)/Official Foreign Exchange Reserves

Source: Moody's Ratings

Detailed credit considerations

Guatemala's credit profile incorporates an economic strength assessment of “baa3,” an institutions and governance strength assessment of “ba2,” a fiscal strength assessment of “baa1” and a susceptibility to event risk assessment of “ba.”

Our assessment of “baa3” for **economic strength** balances stable economic growth, averaging 3.7% projected for 2019-28, with relatively low GDP per capita (on a purchasing power parity basis) of $14,158. Underscoring the Guatemalan economy's resilience, real GDP rebounded strongly in 2021, expanding by 8% following a shallow contraction of 1.8% in 2020. Supported by higher public investment and fiscal spending, we expect growth to strengthen to 4% in 2025 after registering an expected 3.7% in 2024. The final score is below the initial “baa2” score, reflecting structural factors such as the economy’s infrastructure deficit, which constrains its growth potential, and acute social disparities. With nominal GDP of $104 billion in 2023, Guatemala is the largest economy in Central America and above the median level of $84 billion for Ba-rated peers.

Guatemala's **institutions and governance strength** score is “ba2.” The country scores very low in the Worldwide Governance Indicators, which we use as an anchor for our institutional strength assessment. Key weaknesses are in the areas of control of corruption, rule of law and government effectiveness, while strengths include a history of prudent fiscal and monetary policies, data transparency, a growing track record of legislative reforms enacted in parliament notwithstanding the governing party's minority status, and a solid relationship with the IMF and other multilateral organizations. Macroeconomic policymaking by the government and the central bank has proven effective, as illustrated by broadly stable inflation, a sound financial system and the absence of significant imbalances.

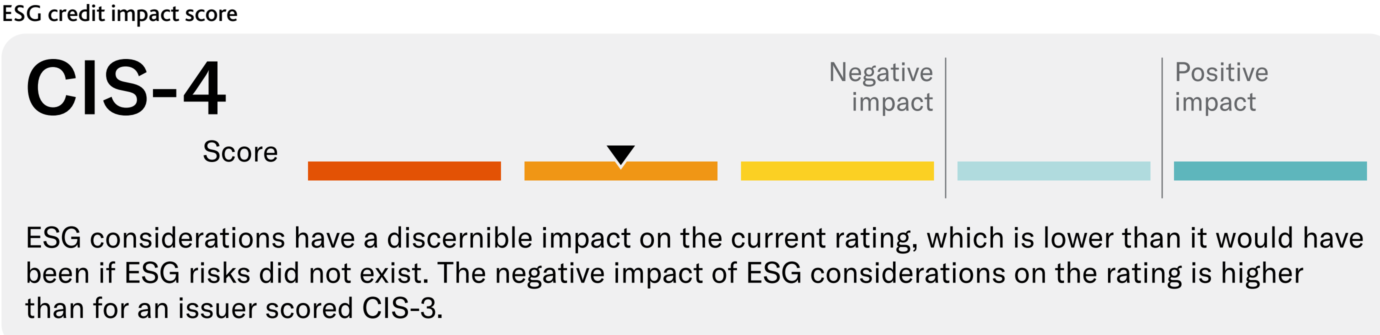
We assess **fiscal strength** at “baa1.” Guatemala has a long history of prudent fiscal management, resulting in a low and stable debt-to-GDP ratio. At the same time, revenue intake is low because of a large proportion of the labor force working in the informal sector (close to 70% of the economically active population), tax evasion, low tax rates and a history of corruption. Government revenue was 12.5% of GDP in 2023, one of the lowest in Latin America and well below the Ba-rated median ratio of 28.0%. Low revenue intake weakens debt affordability, as measured by interest/revenue, which was at 13.1% in 2023, above the Ba-rated median of 9.3%. Despite weak revenue generation, the government has a history of maintaining moderate fiscal deficits and continued debt sustainability.

Our assessment of “ba” for **susceptibility to event risk** reflects political risk, which stems from political polarization and ongoing institutional infighting involving the government’s Semilla party against a backdrop of acute income inequalities that fuel the risk of social disruption. We assess government liquidity risk at “a” to reflect the debt service backstop in the form of the amortization account operated by the central bank, and low gross financing needs. Our banking sector risk assessment is “baa,” balancing the lack of explicit guarantees from the government for partially state-owned banks against concentration risk and potential asset-risk strain stemming from foreign-currency mismatches in borrowers' balance sheets. We assess external vulnerability risk at “aa” because the country has historically posted small external imbalances that were mostly covered by FDIs. In recent years, the current account has been in surplus, boosted by large remittance inflows. International reserves have grown over the past several years and the external vulnerability indicator — which measures upcoming external debt payments relative to foreign-exchange reserves — fell below 20% starting 2023, indicating that reserves vastly cover the amount of upcoming external payments.

ESG considerations

Guatemala's ESG credit impact score is CIS-4

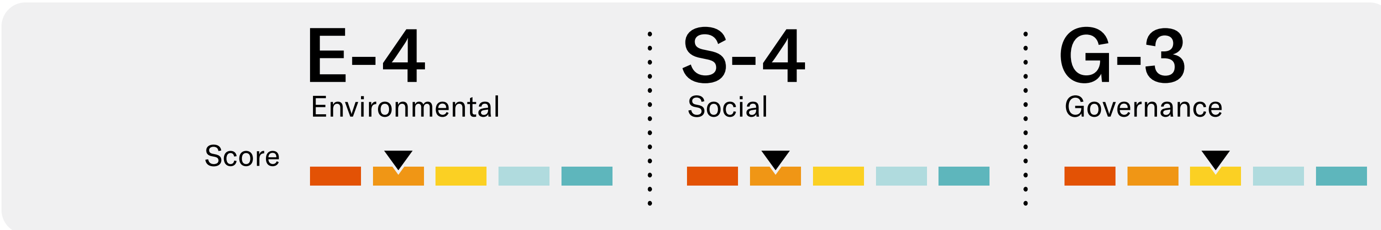
Exhibit 3
ESG credit impact score



Source: Moody's Ratings

Guatemala's ESG Credit Impact Score (**CIS-4**) reflects its weak governance profile and limited resilience due to low economic development, its highly negative exposure to social risks, and a highly negative exposure to environmental risks.

Exhibit 4
ESG issuer profile scores



Source: Moody's Ratings

Environmental

Guatemala's exposure to environmental risks (**E-4** issuer profile score) is based on the country's exposure to climate change risks from recurring droughts and hurricanes, which can deplete agricultural production and harm Guatemalan exports. Exposure to physical climate risk is the major concern for the country while we project risks to access to water, the depletion of natural capital, and waste and pollution will become more acute over time for Guatemala.

Social

Exposure to social risks (**S-4** issuer profile score) stems from long-standing levels of poverty, economic inequality, and social exclusion. Guatemala is characterized by high levels of poverty, limited educational outcomes, and lack of sufficient access to basic services and housing, while previously high crime levels are declining. Like many other emerging economies Guatemala benefits from a comparatively benign demographic structure.

Governance

The influence of governance on Guatemala's credit profile is moderately negative (**G-3** issuer profile score) and includes issues such as rule of law and control of corruption, which limit policy effectiveness and reduce investment and growth. In recent years accusations of political corruption have led thousands to protest, raising the risk of domestic political turmoil.

ESG Issuer Profile Scores and Credit Impact Scores for the rated entity/transaction are available on Moodys.com. In order to view the latest scores, please click here to go to the landing page for the entity/transaction on MDC and view the ESG Scores section.

All of these considerations are further discussed in the "Detailed credit considerations" section above. Our approach to ESG is explained in our report on how the scores depict varied and largely credit-negative impact of ESG factors and our cross-sector methodology General Principles for Assessing Environmental, Social and Governance Risks Methodology.

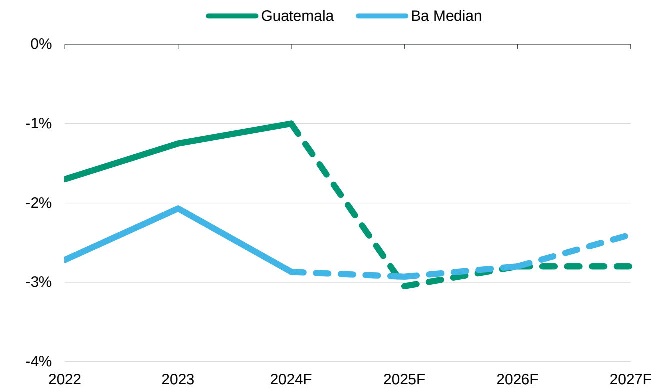
Recent developments

Moderate budget expansion to address social and public investment gaps without undermining the country's prudent fiscal stance

The government, led by President Bernardo Arévalo, now a year in office, plans to target long-neglected social and public investment gaps in the Guatemalan economy. Critically, the fiscal strategy for the next few years will not compromise Guatemala's commitment to maintaining relatively low deficits and a low debt burden. The 2025 budget, approved in December, is the first to be negotiated and enacted under the Arévalo government, and includes more spending allocations toward poverty reduction, public investment to generate employment and income, and measures to increase transparency and combat corruption.

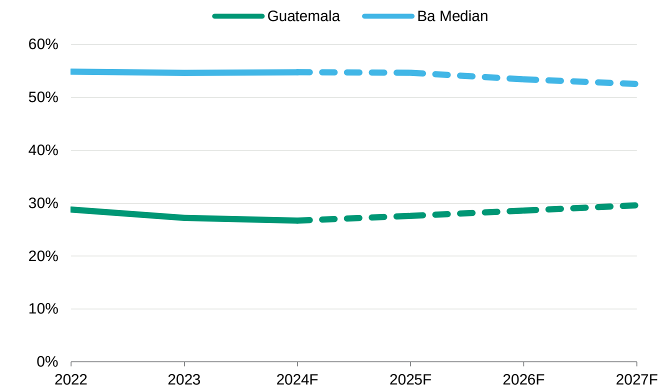
In line with the government's medium-term projections, we expect a moderate and temporary fiscal deficit expansion over the next four years. We expect the fiscal deficit to widen to 3.1% of GDP in 2025 from an estimated 1% in 2024 in light of higher-than-budgeted revenue intake over the past year. Over the following years, we expect the fiscal deficit to narrow between 2.5% and 3% of GDP. The government also aims to structurally expand revenue intake via improvements in tax administration and a broadening of the tax base instead of increasing tax rates. Meanwhile, we expect the debt-to-GDP ratio to remain contained and reach approximately 30% by 2027 (see Exhibits 5 and 6). This level is still significantly below the Ba-rated median, with debt affordability — as measured by interest/revenue — also contained at an expected 13.8% in 2025.

Exhibit 5
Fiscal deficits will undergo a moderate expansion ...
General government fiscal balance (% of GDP)



Sources: Ministerio de Finanzas Públicas and Moody's Ratings

Exhibit 6
... but without a significant increase in the debt burden
General government debt (% of GDP)



Sources: Ministerio de Finanzas Públicas and Moody's Ratings

Institutional infighting and congressional minority constrain government action

The government's Semilla party continues to face significant constraints given its minority in the legislature, and legal challenges from the attorney general and the court system. On 28 November, court judge Freddy Orellana ordered the Supreme Electoral Tribunal (TSE) to suspend Semilla's legal status as a political party. This occurred just two days after the legislature approved a reform of the organized crime law with the aim of preventing Semilla's dissolution. Semilla party legislators are in the process of appealing to the Constitutional Court to reverse the TSE's ruling, for now serving as independent legislators barred from chairing congressional committees. Nevertheless, the government and the Semilla party have demonstrated a high degree of versatility, having secured ample majorities to enact a number of priority reforms, including laws to support infrastructure and competition, increase transparency, and tackle crime and corruption.

Public investment and improved business environment will support growth, but external geopolitics present risks

The government's plans to increase public investment in high multiplier-effect sectors such as infrastructure, health and education are likely to be a major source of growth in the short to medium term, adding as much as 0.4 percentage points in real growth each year starting in 2025 per the central bank. In addition, the government expects some of the reforms already enacted in 2024 to help foster an improved business environment and incentivize larger FDI flows, which have been lagging relative to the rest of the region.

However, the second Trump administration in the US (Aaa negative) poses a potential risk to the Guatemalan economy given its focus on cracking down on migration. Punitive policies aiming to limit remittance or trade flows could have severe repercussions for Guatemala. In 2024, remittances sent to Guatemala, predominantly from the US, amounted to $22 billion, or roughly 20% of GDP. Furthermore, the US is Guatemala's largest trading partner, standing as the destination of 32% of its exports and the source of 30% of its imports in 2023, noting that Guatemala runs a long-standing trade deficit with the US. Guatemala suffered a relatively minimal impact during the first Trump administration from 2017 to 2021, and the country could leverage its status as a helpful ally in the region to avoid any negative disruptions, but we remain cautious in our assessment.

Moody's rating methodology and scorecard factors: Guatemala - Ba1 stable

Factor / Sub-Factor	Metric	Indicator Year	Indicator	Initial Factor Score	Final Factor Score	Weights
Factor 1: Economic strength				baa2	baa3	50%
Growth dynamics	Average real GDP growth (%)	2019-2028F	3.7	a2		25%
	MAD Volatility in Real GDP Growth (%)	2014-2023	0.5	a2		10%
Scale of the economy	Nominal GDP ($ billion)	2023	104.5	baa2		30%
National income	GDP per capita (PPP, Intl$)	2023	14,158.4	baa3		35%
Adjustment to factor 1	*# notches*				-1	max ±9
Factor 2: Institutions and governance strength				ba2	ba2	50%
Quality of institutions	Quality of legislative and executive institutions			b		20%
	Strength of civil society and the judiciary			b		20%
Policy effectiveness	Fiscal policy effectiveness			ba		30%
	Monetary and macroeconomic policy effectiveness			baa		30%
Specified adjustment	Government default history and track record of arrears				0	max -3
Other adjustment to factor 2	*# notches*				0	max ±3
F1 x F2: Economic resiliency				baa3	ba1	
Factor 3: Fiscal strength				baa1	baa1	
Debt burden	General government debt/GDP (%)	2023	27.2	aa2		25%
	General government debt/revenue (%)	2023	218.1	baa1		25%
Debt affordability	General government interest payments/revenue (%)	2023	13.1	ba2		25%
	General government interest payments/GDP (%)	2023	1.6	aa3		25%
Specified adjustments	*Total of specified adjustment (# notches)*			-1	-1	max ±6
	Debt Trend - Historical Change in Debt Burden	2015-2023	2.4	0	0	
	Debt Trend - Expected Change in Debt Burden	2023-2025F	0.4	0	0	
	General Government Foreign Currency Debt/ GDP	2023	11.9	-1	-1	
	Other non-financial public sector debt/GDP	2023	0.0	0	0	
	Government Financial Assets including Sovereign Wealth Funds / GDP	2023	3.9	0	0	
Other adjustment to factor 3	*# notches*				0	max ±3
F1 x F2 x F3: Government financial strength				baa1	baa1	
Factor 4: Susceptibility to event risk				ba	ba	Min
Political risk				ba		
	Domestic political risk and geopolitical risk			ba		
Government liquidity risk				a	a	
	Ease of access to funding			a		
Specified adjustment	High refinancing risk				0	max -2
Banking sector risk				baa	baa	
	Risk of banking sector credit event (BSCE)	Latest available	ba3	ba3-b3		
	Total domestic bank assets/GDP	2023	64.6	<80		
Adjustment to F4 BSR	*# notches*				0	max ±2
External vulnerability risk				aa	aa	
	External vulnerability risk			aa		
Adjustment to F4 EVR	*# notches*				0	max ±2
Overall adjustment to F4	*# notches*				0	max -2
F1 x F2 x F3 x F4: Scorecard-indicated outcome				Baa2 - Ba1	Baa2 - Ba1	

Note: While information used to determine the grid mapping is mainly historical, our ratings incorporate expectations around future metrics and risk developments that may differ from the ones implied by the scorecard-indicated outcome. Thus, the rating process is deliberative and not mechanical, meaning that it depends on peer comparisons and should leave room for exceptional risk factors to be taken into account that may result in an assigned rating outside the scorecard-indicated outcome. For more information please see our Sovereign Ratings Methodology.

Footnotes: (1) Initial factor score: scorecard indicators combine with the automatic adjustments to produce an initial factor score for every rating factor, as detailed in Moody's Sovereign Ratings Methodology. **(2) Final factor score:** where additional analytical considerations exist, initial factor scores are augmented to produce a final factor score. Guidance on additional factors typically considered can be found in Moody's Sovereign Ratings Methodology; details on country-specific considerations are provided in Moody's research. **(3) Scorecard-indicated outcome:** Factor 1: Economic Strength, and Factor 2: Institutions and Governance Strength, combine with equal weight into a construct we designate as Economic Resiliency (ER). An aggregation function then combines ER and Factor 3: Fiscal Strength, following a non-linear pattern where Fiscal Strength has higher weight for countries with moderate ER and lower weight for countries with high or low ER. As a final step, Factor 4, a country's Susceptibility to Event Risk, is a constraint which can only lower the government financial strength as given by combining the first three factors. **(4) There are 20 ranking categories for quantitative sub-factors:** aaa, aa1, aa2, aa3, a1, a2, a3, baa1, baa2, baa3, ba1, ba2, ba3, b1, b2, b3, caa1, caa2, caa3, ca and 8 ranking categories for qualitative sub-factors: aaa, aa, a, baa, ba, b, caa, ca **(5) Indicator value:** if not explicitly stated otherwise, the indicator value corresponds to the latest data available.

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