

Rating Action: Moody's changes Guatemala's outlook to negative, affirms Ba1 ratings

10 Nov 2020

New York, November 10, 2020 -- Moody's Investors Service, ("Moody's") has today changed the outlook on the Government of Guatemala's ratings to negative from stable. Moody's has affirmed Guatemala's Ba1 issuer and senior unsecured bond ratings.

The key drivers for the change in outlook are:

1. The credit impact of the pandemic-related deterioration in debt metrics which is exacerbated by Guatemala's limited revenue base
2. The authorities' limited ability to reverse the deterioration in Guatemala's credit profile and bring government debt metrics in line with peers

The Ba1 rating affirmation reflects the balance between the country's track record of conservative fiscal management and resiliency to domestic and external shocks and credit pressures derived from low per-capita income and weak institutions, evidenced by low overall government effectiveness and rule of law scores.

Guatemala's long-term foreign-currency bond ceiling remains unchanged at Baa3. The foreign-currency deposit ceiling remains at Ba2, while the local-currency bond and deposit ceilings remain at Baa1. The short-term foreign-currency bond ceiling remains at P-3, while the short-term foreign-currency deposit ceiling remains unchanged at NP.

RATINGS RATIONALE

RATIONALE FOR CHANGING THE OUTLOOK TO NEGATIVE FROM STABLE

PANDEMIC-RELATED DETERIORATION IN DEBT METRICS EXACERBATED BY GUATEMALA'S LIMITED REVENUE BASE

The coronavirus pandemic has led to wider fiscal deficits and a recession that, while moderate by regional standards, has pushed government debt metrics higher. Moody's estimates the fiscal deficit will reach 5.6% of GDP this year, a result of both increased pandemic-related spending and lower revenue intake amid an economic slowdown, with GDP set to shrink 2% this year. In 2021, Moody's expects the economy to recover and post 4% annual growth, which is above Guatemala's historical trend growth of 3.5%. Still, the fiscal deficit will narrow only modestly to 4.8% of GDP next year.

Moody's projects that the wider fiscal deficits will push government debt from 27% of GDP in 2019 to 32% in 2020 and 34% in 2021. Given Guatemala's very low revenue intake, one of the lowest among Moody's universe of rated sovereigns, the anticipated increase in government debt and interest payments relative to revenue will cause metrics to compare unfavorably to peers. The government's interest burden is set to rise with interest payments representing 17.4% of revenue in 2021, much higher than the 12.8% median for Ba1 and Ba2-rated peers.

Low government revenue, a long standing feature of Guatemala's credit profile, restricts fiscal flexibility. Government revenue averaged 11.4 % of GDP in 2016-19, substantially below the 28.2% of GDP average for Ba1 and Ba2-rated peers. Moody's expects it to decline to 10.6% of GDP in 2020 and rise only modestly to 10.9% of GDP in 2021.

LIMITED ABILITY TO REVERSE DETERIORATION IN CREDIT METRICS AND TO BRING THEM IN LINE WITH PEERS

Reducing debt metrics will pose significant challenges for Guatemala. Absent a substantial fiscal consolidation program, higher government debt and interest burdens will become a permanent feature of the sovereign

credit profile, undermining Guatemala's standing relative to peers.

The authorities face the challenge of adopting a fiscal consolidation strategy that proves effective in reversing the deterioration in government debt metrics. This task will require combining spending restraint with a sustained and material increase in the tax intake, an area where major shortcomings have been observed over the years.

Guatemala's revenue base is among the lowest in Moody's sovereign rated universe as a result of low tax rates, weak tax enforcement, and a large informal sector. Given the authorities' limited ability to bolster government revenue, the country's performance on this front will be critical to determining the direction in which sovereign credit prospects will move.

RATIONALE FOR AFFIRMING THE RATINGS AT Ba1

The Ba1 rating affirmation reflects the balance between a track record of conservative fiscal management and the relative resilience of the economy to domestic and external shocks, against underlying credit pressures derived from a low per-capita income level and weak institutions.

Low income per-capita undercuts the sovereign credit profile with weak development metrics placing important structural constraints on credit prospects. Even though Guatemala's \$77 billion economy is larger than the \$43 billion peer median, the country's per-capita GDP (PPP basis) of \$8,487 in 2019 was 46% lower than the median for similarly rated peers. Moreover, with one of the highest Gini coefficients (a standard measure of income inequality), Guatemala's income distribution is highly unequal, a condition that introduces potential political and policy risks.

A weak institutional framework is another factor that restricts Guatemala's credit standing. The country's Worldwide Governance Indicators, which are incorporated in Moody's assessment of 'institutions and governance strength', are lower than those of most of its peers particularly with regards to government effectiveness and rule of law.

ENVIRONMENTAL, SOCIAL, GOVERNANCE CONSIDERATIONS

Environmental risks are material to Guatemala's credit profile. Guatemala's sovereign credit profile is exposed to climate change risks from recurring droughts and hurricanes, which can deplete agricultural production and thus harm Guatemalan exports.

Social risks are also material and stem from long-standing levels of poverty, economic inequality, and social exclusion. The fiscal impact of the coronavirus pandemic, which Moody's considers a social risk, will result in a higher fiscal deficit and a larger debt burden.

Governance considerations are material credit risks and include issues such as the rule of law and control of corruption, which limit policy effectiveness and reduce investment and growth. Despite these credit constraints the government maintains a strong track record of effective fiscal and monetary policymaking.

GDP per capita (PPP basis, US\$): 8,487 (2019 Actual) (also known as Per Capita Income)

Real GDP growth (% change): 3.8% (2019 Actual) (also known as GDP Growth)

Inflation Rate (CPI, % change Dec/Dec): 3.4% (2019 Actual)

Gen. Gov. Financial Balance/GDP: -2.2% (2019 Actual) (also known as Fiscal Balance)

Current Account Balance/GDP: 2.4% (2019 Actual) (also known as External Balance)

External debt/GDP: 24.5 (2019 Actual)

Economic resiliency: ba2

Default history: No default events (on bonds or loans) have been recorded since 1983.

On 05 November 2020, a rating committee was called to discuss the rating of the Guatemala, Government of. The main points raised during the discussion were: The issuer's institutions and governance strength, have not materially changed. The issuer's governance and/or management, have not materially changed. The issuer's fiscal or financial strength, including its debt profile, has materially decreased.

FACTORS THAT COULD LEAD TO AN UPGRADE OR DOWNGRADE OF THE RATINGS

An upgrade of Guatemala's rating is unlikely in the near to medium term. A change in the outlook to stable from negative would require evidence that the government has managed to stabilize debt metrics and has a credible plan to bring them more in line with those of its peers.

The rating could be lowered if (1) worse-than-expected economic and fiscal performances result in persistently high government debt and interest burdens, or (2) weak social development indicators and domestic security challenges begin to pose a threat to political stability.

The principal methodology used in these ratings was Sovereign Ratings Methodology published in November 2019 and available at https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC_1158631. Alternatively, please see the Rating Methodologies page on www.moodys.com for a copy of this methodology.

The weighting of all rating factors is described in the methodology used in this credit rating action, if applicable.

REGULATORY DISCLOSURES

For further specification of Moody's key rating assumptions and sensitivity analysis, see the sections Methodology Assumptions and Sensitivity to Assumptions in the disclosure form. Moody's Rating Symbols and Definitions can be found at: https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC_79004.

For ratings issued on a program, series, category/class of debt or security this announcement provides certain regulatory disclosures in relation to each rating of a subsequently issued bond or note of the same series, category/class of debt, security or pursuant to a program for which the ratings are derived exclusively from existing ratings in accordance with Moody's rating practices. For ratings issued on a support provider, this announcement provides certain regulatory disclosures in relation to the credit rating action on the support provider and in relation to each particular credit rating action for securities that derive their credit ratings from the support provider's credit rating. For provisional ratings, this announcement provides certain regulatory disclosures in relation to the provisional rating assigned, and in relation to a definitive rating that may be assigned subsequent to the final issuance of the debt, in each case where the transaction structure and terms have not changed prior to the assignment of the definitive rating in a manner that would have affected the rating. For further information please see the ratings tab on the issuer/entity page for the respective issuer on www.moodys.com.

For any affected securities or rated entities receiving direct credit support from the primary entity(ies) of this credit rating action, and whose ratings may change as a result of this credit rating action, the associated regulatory disclosures will be those of the guarantor entity. Exceptions to this approach exist for the following disclosures, if applicable to jurisdiction: Ancillary Services, Disclosure to rated entity, Disclosure from rated entity.

The ratings have been disclosed to the rated entity or its designated agent(s) and issued with no amendment resulting from that disclosure.

These ratings are solicited. Please refer to Moody's Policy for Designating and Assigning Unsolicited Credit Ratings available on its website www.moodys.com.

Regulatory disclosures contained in this press release apply to the credit rating and, if applicable, the related rating outlook or rating review.

Moody's general principles for assessing environmental, social and governance (ESG) risks in our credit analysis can be found at https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC_1133569.

The Global Scale Credit Rating on this Credit Rating Announcement was issued by one of Moody's affiliates outside the EU and is endorsed by Moody's Deutschland GmbH, An der Welle 5, Frankfurt am Main 60322, Germany, in accordance with Art.4 paragraph 3 of the Regulation (EC) No 1060/2009 on Credit Rating Agencies. Further information on the EU endorsement status and on the Moody's office that issued the credit rating is available on www.moodys.com.

Please see www.moodys.com for any updates on changes to the lead rating analyst and to the Moody's legal entity that has issued the rating.

Please see the ratings tab on the issuer/entity page on www.moodys.com for additional regulatory disclosures for each credit rating.

Gabriel Torres
VP - Senior Credit Officer
Sovereign Risk Group
Moody's Investors Service, Inc.
250 Greenwich Street
New York, NY 10007
U.S.A.
JOURNALISTS: 1 212 553 0376
Client Service: 1 212 553 1653

Yves Lemay
MD - Sovereign/Sub Sovereign
Sovereign Risk Group
JOURNALISTS: 44 20 7772 5456
Client Service: 44 20 7772 5454

Releasing Office:
Moody's Investors Service, Inc.
250 Greenwich Street
New York, NY 10007
U.S.A.
JOURNALISTS: 1 212 553 0376
Client Service: 1 212 553 1653



© 2020 Moody's Corporation, Moody's Investors Service, Inc., Moody's Analytics, Inc. and/or their licensors and affiliates (collectively, "MOODY'S"). All rights reserved.

CREDIT RATINGS ISSUED BY MOODY'S INVESTORS SERVICE, INC. AND/OR ITS CREDIT RATINGS AFFILIATES ARE MOODY'S CURRENT OPINIONS OF THE RELATIVE FUTURE CREDIT RISK OF ENTITIES, CREDIT COMMITMENTS, OR DEBT OR DEBT-LIKE SECURITIES, AND MATERIALS, PRODUCTS, SERVICES AND INFORMATION PUBLISHED BY MOODY'S (COLLECTIVELY, "PUBLICATIONS") MAY INCLUDE SUCH CURRENT OPINIONS. MOODY'S INVESTORS SERVICE DEFINES CREDIT RISK AS THE RISK THAT AN ENTITY MAY NOT MEET ITS CONTRACTUAL FINANCIAL OBLIGATIONS AS THEY COME DUE AND ANY ESTIMATED FINANCIAL LOSS IN THE EVENT OF DEFAULT OR IMPAIRMENT. SEE MOODY'S RATING SYMBOLS AND DEFINITIONS PUBLICATION FOR INFORMATION ON THE TYPES OF CONTRACTUAL FINANCIAL OBLIGATIONS ADDRESSED BY MOODY'S INVESTORS SERVICE CREDIT RATINGS. CREDIT RATINGS DO NOT ADDRESS ANY OTHER RISK, INCLUDING BUT NOT LIMITED TO: LIQUIDITY RISK, MARKET VALUE RISK, OR PRICE VOLATILITY. CREDIT RATINGS, NON-CREDIT ASSESSMENTS ("ASSESSMENTS"), AND OTHER OPINIONS INCLUDED IN MOODY'S PUBLICATIONS ARE NOT STATEMENTS OF CURRENT OR HISTORICAL FACT. MOODY'S PUBLICATIONS MAY ALSO INCLUDE QUANTITATIVE MODEL-BASED ESTIMATES OF CREDIT RISK AND RELATED OPINIONS OR COMMENTARY PUBLISHED BY MOODY'S ANALYTICS, INC. AND/OR ITS AFFILIATES. MOODY'S CREDIT RATINGS, ASSESSMENTS, OTHER OPINIONS AND PUBLICATIONS DO NOT CONSTITUTE OR PROVIDE INVESTMENT OR FINANCIAL ADVICE, AND MOODY'S CREDIT RATINGS, ASSESSMENTS, OTHER OPINIONS AND PUBLICATIONS ARE NOT AND DO NOT PROVIDE RECOMMENDATIONS TO PURCHASE, SELL, OR HOLD PARTICULAR SECURITIES. MOODY'S CREDIT RATINGS, ASSESSMENTS, OTHER OPINIONS AND PUBLICATIONS DO NOT COMMENT ON THE SUITABILITY OF AN INVESTMENT FOR ANY PARTICULAR INVESTOR. MOODY'S ISSUES ITS CREDIT RATINGS, ASSESSMENTS AND OTHER OPINIONS AND PUBLISHES ITS PUBLICATIONS WITH THE EXPECTATION AND UNDERSTANDING THAT EACH INVESTOR WILL, WITH DUE CARE, MAKE ITS OWN STUDY AND EVALUATION OF EACH SECURITY THAT IS UNDER CONSIDERATION FOR PURCHASE,

HOLDING, OR SALE.

MOODY'S CREDIT RATINGS, ASSESSMENTS, OTHER OPINIONS, AND PUBLICATIONS ARE NOT INTENDED FOR USE BY RETAIL INVESTORS AND IT WOULD BE RECKLESS AND INAPPROPRIATE FOR RETAIL INVESTORS TO USE MOODY'S CREDIT RATINGS, ASSESSMENTS, OTHER OPINIONS OR PUBLICATIONS WHEN MAKING AN INVESTMENT DECISION. IF IN DOUBT YOU SHOULD CONTACT YOUR FINANCIAL OR OTHER PROFESSIONAL ADVISER.

ALL INFORMATION CONTAINED HEREIN IS PROTECTED BY LAW, INCLUDING BUT NOT LIMITED TO, COPYRIGHT LAW, AND NONE OF SUCH INFORMATION MAY BE COPIED OR OTHERWISE REPRODUCED, REPACKAGED, FURTHER TRANSMITTED, TRANSFERRED, DISSEMINATED, REDISTRIBUTED OR RESOLD, OR STORED FOR SUBSEQUENT USE FOR ANY SUCH PURPOSE, IN WHOLE OR IN PART, IN ANY FORM OR MANNER OR BY ANY MEANS WHATSOEVER, BY ANY PERSON WITHOUT MOODY'S PRIOR WRITTEN CONSENT.

MOODY'S CREDIT RATINGS, ASSESSMENTS, OTHER OPINIONS AND PUBLICATIONS ARE NOT INTENDED FOR USE BY ANY PERSON AS A BENCHMARK AS THAT TERM IS DEFINED FOR REGULATORY PURPOSES AND MUST NOT BE USED IN ANY WAY THAT COULD RESULT IN THEM BEING CONSIDERED A BENCHMARK.

All information contained herein is obtained by MOODY'S from sources believed by it to be accurate and reliable. Because of the possibility of human or mechanical error as well as other factors, however, all information contained herein is provided "AS IS" without warranty of any kind. MOODY'S adopts all necessary measures so that the information it uses in assigning a credit rating is of sufficient quality and from sources MOODY'S considers to be reliable including, when appropriate, independent third-party sources. However, MOODY'S is not an auditor and cannot in every instance independently verify or validate information received in the rating process or in preparing its Publications.

To the extent permitted by law, MOODY'S and its directors, officers, employees, agents, representatives, licensors and suppliers disclaim liability to any person or entity for any indirect, special, consequential, or incidental losses or damages whatsoever arising from or in connection with the information contained herein or the use of or inability to use any such information, even if MOODY'S or any of its directors, officers, employees, agents, representatives, licensors or suppliers is advised in advance of the possibility of such losses or damages, including but not limited to: (a) any loss of present or prospective profits or (b) any loss or damage arising where the relevant financial instrument is not the subject of a particular credit rating assigned by MOODY'S.

To the extent permitted by law, MOODY'S and its directors, officers, employees, agents, representatives, licensors and suppliers disclaim liability for any direct or compensatory losses or damages caused to any person or entity, including but not limited to by any negligence (but excluding fraud, willful misconduct or any other type of liability that, for the avoidance of doubt, by law cannot be excluded) on the part of, or any contingency within or beyond the control of, MOODY'S or any of its directors, officers, employees, agents, representatives, licensors or suppliers, arising from or in connection with the information contained herein or the use of or inability to use any such information.

NO WARRANTY, EXPRESS OR IMPLIED, AS TO THE ACCURACY, TIMELINESS, COMPLETENESS, MERCHANTABILITY OR FITNESS FOR ANY PARTICULAR PURPOSE OF ANY CREDIT RATING, ASSESSMENT, OTHER OPINION OR INFORMATION IS GIVEN OR MADE BY MOODY'S IN ANY FORM OR MANNER WHATSOEVER.

Moody's Investors Service, Inc., a wholly-owned credit rating agency subsidiary of Moody's Corporation ("MCO"), hereby discloses that most issuers of debt securities (including corporate and municipal bonds, debentures, notes and commercial paper) and preferred stock rated by Moody's Investors Service, Inc. have, prior to assignment of any credit rating, agreed to pay to Moody's Investors Service, Inc. for credit ratings opinions and services rendered by it fees ranging from \$1,000 to approximately \$2,700,000. MCO and Moody's investors Service also maintain policies and procedures to address the independence of Moody's Investors Service credit ratings and credit rating processes. Information regarding certain affiliations that may exist between directors of MCO and rated entities, and between entities who hold credit ratings from Moody's Investors Service and have also publicly reported to the SEC an ownership interest in MCO of more than 5%, is posted annually at www.moodys.com under the heading "Investor Relations — Corporate Governance — Director and Shareholder Affiliation Policy."

Additional terms for Australia only: Any publication into Australia of this document is pursuant to the Australian Financial Services License of MOODY'S affiliate, Moody's Investors Service Pty Limited ABN 61 003 399 657AFSL 336969 and/or Moody's Analytics Australia Pty Ltd ABN 94 105 136 972 AFSL 383569 (as applicable). This document is intended to be provided only to "wholesale clients" within the meaning of section 761G of the Corporations Act 2001. By continuing to access this document from within Australia, you represent to MOODY'S that you are, or are accessing the document as a representative of, a "wholesale client" and that neither you nor the entity you represent will directly or indirectly disseminate this document or its contents to "retail clients" within the meaning of section 761G of the Corporations Act 2001. MOODY'S credit rating is an opinion as to the creditworthiness of a debt obligation of the issuer, not on the equity securities of the issuer or any form of security that is available to retail investors.

Additional terms for Japan only: Moody's Japan K.K. ("MJKK") is a wholly-owned credit rating agency subsidiary of Moody's Group Japan G.K., which is wholly-owned by Moody's Overseas Holdings Inc., a wholly-owned subsidiary of MCO. Moody's SF Japan K.K. ("MSFJ") is a wholly-owned credit rating agency subsidiary of MJKK. MSFJ is not a Nationally Recognized Statistical Rating Organization ("NRSRO"). Therefore, credit ratings assigned by MSFJ are Non-NRSRO Credit Ratings. Non-NRSRO Credit Ratings are assigned by an entity that is not a NRSRO and, consequently, the rated obligation will not qualify for certain types of treatment under U.S. laws. MJKK and MSFJ are credit rating agencies registered with the Japan Financial Services Agency and their registration numbers are FSA Commissioner (Ratings) No. 2 and 3 respectively.

MJKK or MSFJ (as applicable) hereby disclose that most issuers of debt securities (including corporate and municipal bonds, debentures, notes and commercial paper) and preferred stock rated by MJKK or MSFJ (as applicable) have, prior to assignment of any credit rating, agreed to pay to MJKK or MSFJ (as applicable) for credit ratings opinions and services rendered by it fees ranging from JPY125,000 to approximately JPY250,000,000.

MJKK and MSFJ also maintain policies and procedures to address Japanese regulatory requirements.