Euler Hermes Economic Research

Country Risk Analysis

Guatemala

Solid outlook, fragile institutional framework

General Information

GDP	USD46,9bn (World ranking 77, World Bank 2011)
Population	14.76 million (World ranking 66, World Bank 2011)
Form of state	Constitutional Democratic Republic
Head of government	Otto Fernando PEREZ MOLINA (PP)
Next elections	2015, presidential and legislative

Strengths

- Generally conservative, prudent macroeconomic policy framework
- Moderate debt ratios and adequate external balance
- Access to international finance support likely, if needed (IMF precautionary standby completed In 2009-10 during height of global financial crisis)
- Functioning democratic process—four handovers of power since end of 36-year civil war in 1996)
- Adequate business environment
- Trade agreement with US (DR-CAFTA)

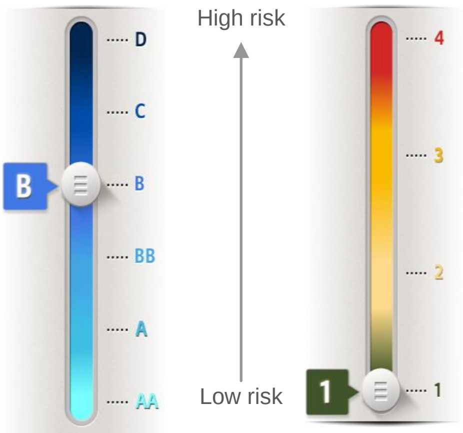
Weaknesses

- Low growth of medium-term real per capita GDP and highly skewed income distribution
- High dependency on primary commodities and US (trade and workers' remittances) though exports are diversified
- Weak institutional framework, legacy of history of political instability
- Security situation and levels of violent crime, regional hub for illegal drug trade

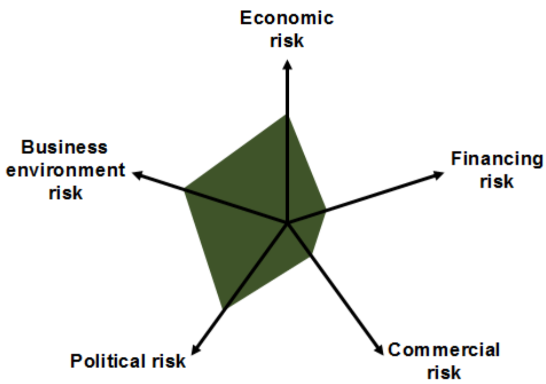
Country Rating

B1

Country Grade **Country Risk Level**



Risk Dimensions



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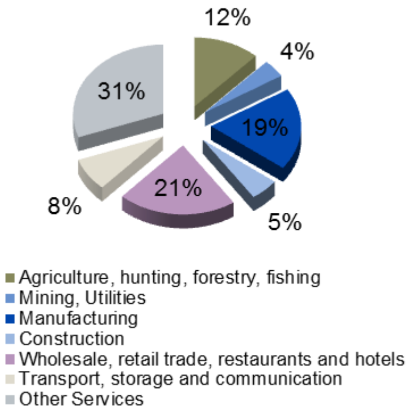
Economic Structure

GDP breakdown (% of total, 2010)



Sources: Chelem, UnctadStat, IHS Global Insight, Euler Hermes

Trade structure (% of total, 2010)

By destination/origin

Exports		Rank		Imports
United States	40%	1	41%	United States
El Salvador	10%	2	12%	Mexico
Honduras	7%	3	8%	China
Mexico	5%	4	5%	El Salvador
Nicaragua	4%	5	4%	Panama

By product

Exports		Rank		Imports
Coffee, tea, cocoa, spices, and manufactures thereof	15%	1	17%	Petroleum, petroleum products and related materials
Articles of apparel & clothing accessories	13%	2	6%	Textile yarn and related products
Vegetables and fruits	12%	3	6%	Road vehicles

Economic Forecast

	Average 2000-08	2009	2010	2011	2012	2013f	2014f
GDP growth (% change)	3.7	0.5	2.9	4.2	3.0	3.2	3.4
Inflation (%, end-year)	8.0	-0.3	5.4	6.2	3.5	4.6	4.5
Fiscal balance (% of GDP)	-1.7	-3.1	-3.3	-2.8	-2.4	-2.5	-2.3
Public debt (% of GDP)	20.4	22.9	24.1	24.1	24.8	25.5	25.9
Current account (% of GDP)	-5.3	0.0	-1.5	-3.1	-2.9	-3.1	-3.2
External debt (% of GDP)	29.9	39.3	36.4	34.7	35.0	33.0	32.0

Sources: IHS Global Insight, National sources, Euler Hermes

Economic Growth

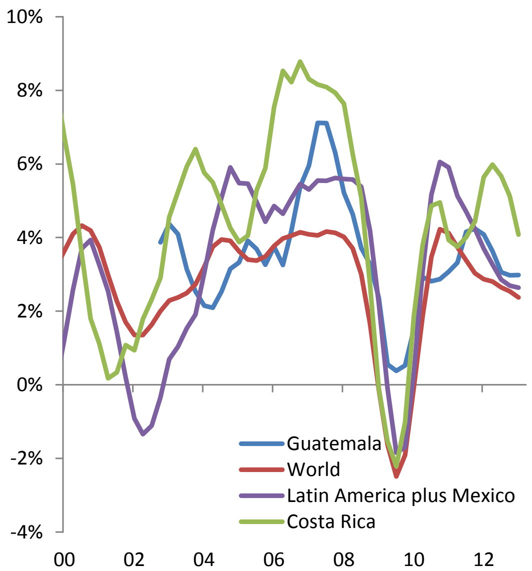
Long term growth low

Coffee, sugar and bananas remain important exports. Manufacturing exports—particularly garments and the maquiladora sector (offshore assembly for re-export)—and workers remittances, however, have both grown strongly and the latter accounts for 25% of all current account foreign exchange earnings. The economy is closely aligned with both commodity price fluctuations and the US economic cycle. Annual average growth of real GDP per capita has been low over the past ten years at just under 1%, though the trend is improving.

But to remain solid in 2013-14

Growth of 3% in 2012 should be followed by 3.2% in 2013 and 3.4% in 2014, as continued momentum in US demand, helps to maintain the pace of domestic demand. The monthly activity indicator in the first two months of the year was up 3.5% y/y and there was a pick-up in Q4 2012 GDP growth to 3.2% after a two quarter dip in Q2 and Q3. On the output side, the coffee sector will be hit in 2013 by an outbreak of leaf rust.

GDP growth (y/y, 4 qtrs cumulated %)



Sources: IHS Global Insight, Euler Hermes

Economic Policies

The government of President Otto Perez, a retired general, in office since January 2012, has put fiscal strengthening as a priority, focused on improved revenue generation and containing expenditure. Congress is fragmented and the government lacks a working majority, though it has been able to build coalitions to pass some legislation and the president has a strong personal mandate.

Inflation edges up, but containable

Annual (y/y) inflation fell sharply through 2012 ending the year at 3.5% (down from 6.2% at end-2011) before picking up moderately to 4.3% y/y in March 2013, but should be contained to 4.6% at end-year and 4.5% at end-2014, unless there is an unexpected spike in food or energy prices. Credit growth is strong. The central bank raised the policy interest rate in April 2013 to 5.25% from 5% where it had been since September 2012 (when it was lowered).

The exchange rate is a managed float, though it has moved little in the past two years with a corresponding build-up of FX reserves. The real effective exchange rate, however, is not seriously overvalued at present.

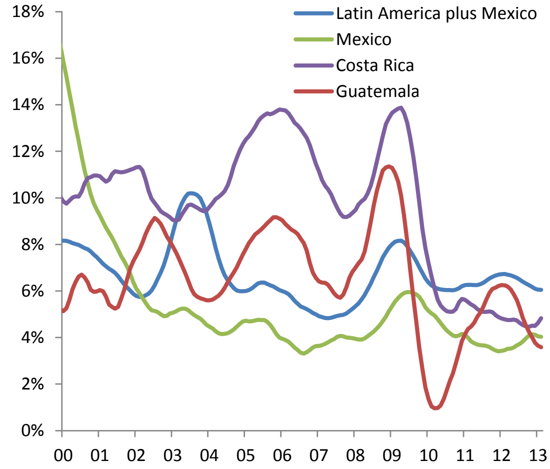
Banking indicators—capital ratios, non-performing loans and loans-to-deposit ratios—suggest the sector overall is reasonably sound, though the offshore banking sector and dollarisation remain significant factors.

Moderate fiscal deficit, low public debt

The fiscal deficit was reduced in 2012 to -2.4% of GDP from -2.8% of GDP in 2011. An important development was the passage of tax reform legislation which, when fully implemented should raise tax revenues by 1.6pp of GDP from the structurally low level of 11% of GDP. At the same time the government has contained the rise in expenditure evident in the previous two years. The deficit is expected to be contained to -2.5% in 2013 and the government target is to reduce the deficit to 1.8% of GDP by 2015.

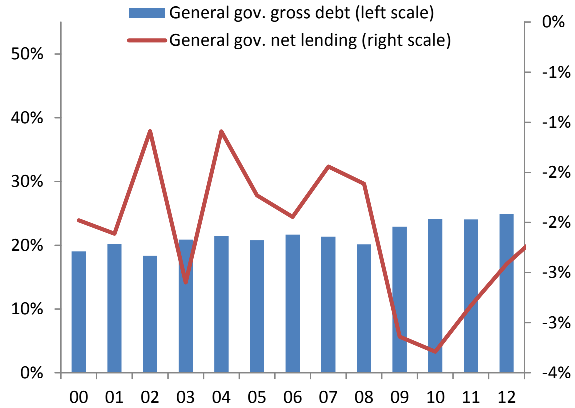
The public debt-GDP ratio is a low 25% of GDP, though it has been on a rising trend in recent years.

Inflation rate (%)



Sources: IHS Global Insight, Euler Hermes

Fiscal balance and debt (% of GDP)



Sources: IHS Global Insight, Euler Hermes

Current account

The current account deficit is moderate. In 2012 the deficit was -2.9% of GDP (down from -3.4% in 2011). The trade deficit widened as the total value of exports fell slightly while imports increased. Workers' remittances increased strongly, however, and profits & dividends were lower, which more than offset the deterioration in the trade balance.

The current account deficit is likely to be at a similar level relative to GDP in both 2013 and 2014 (-3.1% and -3.2% respectively).

The current account deficit is 80% covered by FDI inflows, which has also been on a rising trend in recent years.

External debt

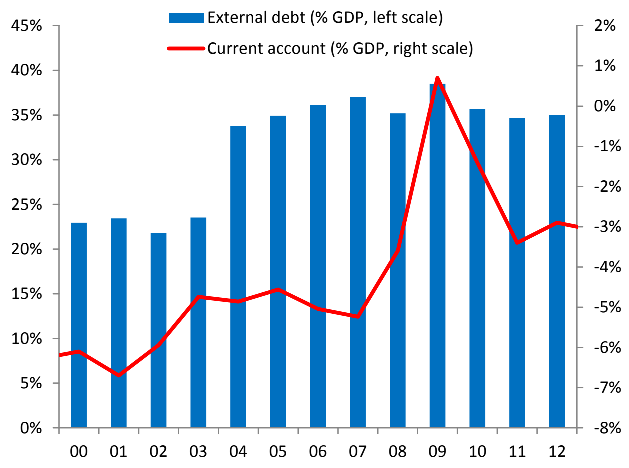
External debt is moderate. External debt is 35% of GDP, 96% of exports of goods and services and interest payments are 4.3% of exports of goods and services. Only 33% of total external debt is with the public sector. A USD700mn sovereign euro-bond (seven times oversubscribed) was issued successfully earlier this year.

Foreign exchange reserves

Foreign exchange reserves have increased and cover a comfortable 4.3 months imports of goods and services and 120% of external debt falling due (including ST) in 2013. M2 as a proportion of FX reserves is also moderate.

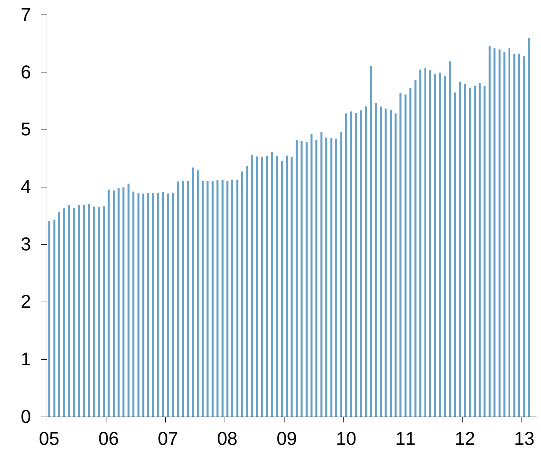
Overall, the external balance is relatively sound.

External debt (% of GDP)



Sources: IHS Global Insight, Euler Hermes

FX reserves (USDbn)



Sources: IHS Global Insight, Euler Hermes

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