



Fitch Ratings: Fragmented Congress Will Weigh on Guatemala Reform Agenda

Fitch Ratings-New York-17 June 2019: Guatemala's June 16 general elections resulted in a fragmented Congress, raising the risks for continued political gridlock and diminishing the likelihood of reform, says Fitch Ratings. The incoming administration will face significant challenges such as tackling the steady erosion in tax collections and improving governance and institutional strength. Economic activity has proven resilient to ongoing political tension and GDP growth forecasts remain above 3% in 2019 and 2020. As no candidate won a majority of votes in the presidential race, the Aug. 11 runoff will be key to watch.

The presidential election has been particularly contentious, with criminal investigations and a constitutional ban preventing former coup leaders and their relatives from running for public office annulling several candidacies. Leading candidate withdrawals have affected the election process' credibility, leading to a low voter turnout, which may weaken the next administration's mandate.

Sandra Torres had the largest popular support ahead of the election according to opinion polls and received the most votes (26%) according to preliminary results. Alejandro Giammattei came second with just over 14% of the popular vote. However, the potential result of the August runoff is uncertain. A recent poll reported that more than 30% of voters would never vote for Ms. Torres while only 2% would never vote for Mr. Giammattei. This could tilt the election toward a candidate with limited initial support. In 2015, political outsider Jimmy Morales was elected president in a second round as a decisive proportion of voters voted against Sandra Torres.

Torres' UNE party made significant gains in Congressional elections, winning the largest share of the unicameral assembly although falling far short of a majority with 44 out of 160 seats. The remaining seats were split among more than 15 political parties. The fragmented congressional result is likely to lead to continued political gridlock and limited reform prospects. Corruption investigations have also been widespread against candidates running for congress.

The corruption scandals and weak judicial institutions underpin Guatemala's weak governance indicators, particularly rule of law and control of corruption. Guatemala's governance indicators show an average percentile rank of only 28.3% compared to the 'BB' median of 43.8% and 'B' median of 37.8%.

Entrenched corruption and impunity are likely to continue as President Morales announced that he will not renew the UN-backed International Commission Against Impunity in Guatemala's (CICIG) two-year mandate, despite the entity's popular support. CICIG is a UN-backed body that has been investigating corruption cases within the country since 2007; the current two-year mandate will expire in September 2019. Former attorney general Thelma Aldana, the only well-known presidential candidate to support the CICIG, was deemed ineligible to run due to lacking a certification confirming that all of her public accounts were settled.

Guatemala Governance Indicators

Percentile Ranks

Source: World Bank, Fitch Ratings.



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Guatemala's political environment has been strained since 2015 when widespread protests against perceived corruption led to the ouster of former president Otto Perez Molina. Allegations of illegal campaign financing against President Morales have caused additional political gridlock. Economic activity has proven resilient to political turmoil; however, gradual fiscal deterioration has continued since 2015.

Government revenues declined to 10.5% of GDP by 1Q19 and are expected to continue decreasing through 2019 and 2020 absent any fiscal reform. Weak tax collection performance is a result of high levels of tax evasion, institutional challenges at the tax authority and weak control of corruption. Low tax collection and a highly rigid expenditure profile, 90% of government expenditure are earmarked, limits public investment. Presidential contenders have not released detailed proposals on how they would tackle this issue.

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The above article originally appeared as a post on the Fitch Wire credit market commentary page. The original article can be accessed at www.fitchratings.com. All opinions expressed are those of Fitch Ratings.

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