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Strategy Flash – El Salvador

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El Salvador Strategy Flash

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El Salvador's 12m- accumulated fiscal position came in at -1.9% of GDP in September, while the primary balance clocked in at +2.4% of GDP, worsening relative to August. The fiscal deficit ended September just 0.2pp below Dec-22 levels, even after a marginal compression in January, which was then offset by slightly weaker monthly prints since. However, during September income sources rose by +0.3pp, being marginally outrun by the growth pace of outlays, which experienced a similar +0.3pp increase relative to August, widening the fiscal deficit relative to last month's figures. NFPS income totaled 25pp of GDP in September (+0.3pp vs. August). The variation in the segment was mostly explained by a +0.2pp rise in tax revenues, with the remainder being driven by a +0.1pp hike in Non-tax income. The rest of the segments stood level with their Aug-23 figures. This slightly shuffled the composition of Income sources. Therefore, Tax revenues came in at 20.1% of GDP, accounting for 80.4% of Total Income, decreasing relative to August's figures.

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Outlays totaled 26.9pp of GDP in September, increasing by +0.3pp relative to August. The rise in expenditure was driven by a variety of segments. Current outlays clocked in at 23.5pp of GDP, rising by 0.1pp relative to August. In turn, inside the segment, the increase came on the back of both Consumption of goods and services and Transfers, each posting twin +0.1pp rises. In this context, the government decided to increase Capex levels marginally, as the segment showcased a +0.2pp variation relative to August. Public Investment now stands at 3.4pp of GDP, with gross investment accounting for 3pp of GDP. With primary NFPS Income increasing by +0.3pp and primary NFPS expenditures rising by +0.3pp of GDP, the primary surplus worsened marginally relative to August. In this context, the balance continues to stand at the very healthy +2.4% level, well inside positive territory.

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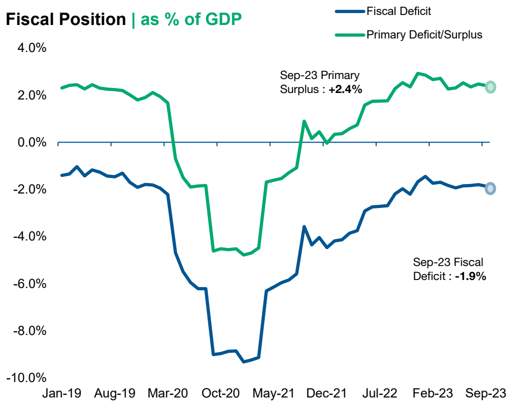
We find the recent fiscal prints to be credit-positive, as the administration is still conserving a hawkish fiscal bias. Going forward, we continue to believe it is unlikely the administration would commit to a large trim in government outlays, especially with dual elections dangling menacingly close in early 2024. However, it is also true that the administration's popularity does not seem to stem from fiscal impulse, as two consecutive years of massive consolidation did not even scratch Mr. Bukele's popularity ratings, which seem to be tied to the massive improvement in security metrics generated by the exception regime. With this in mind, it is not likely that the administration would increase expenditure massively to win the elections, as it does not need to, and most polls suggest so. Still, it is as unlikely as the government continuing to trim outlays in a context where their primary balance metrics exceed the historical average and stand close to its maximums. All in all, we expect the government to maintain relative order in the fiscal balance, not only due to its track record but also due to the fact that the administration pushed its financing sources to the limit during 2022 to pay the 2023 Eurobond, which should still leave the administration with financial constraints, tightening its spending possibilities, with the 2024 budget pointing in that direction as well.

Figure 1: September's fiscal figures



12m accumulated | % of GDP	dec-21	dec-22	ago-23	sep-23
Total Income	**24.1%**	**24.3%**	**24.8%**	**25.0%**
Current Income	24.1%	24.2%	24.7%	25.0%
Tax Revenues	19.6%	19.7%	19.9%	20.1%
Social System Contributions	2.2%	2.2%	2.3%	2.2%
Rest	2.3%	2.3%	2.6%	2.7%
Total Mandatory Outlays	**28.6%**	**25.9%**	**26.6%**	**26.9%**
Current Ouytlays	25.3%	23.3%	23.4%	23.5%
Consumption	15.6%	14.6%	15.1%	15.2%
Interest Payments	4.4%	4.6%	4.3%	4.3%
Current Transfers	5.3%	4.1%	4.0%	4.0%
Capital Expenditure	3.3%	2.7%	3.2%	3.4%
Net Loan Granting	0.0%	0.0%	0.0%	0.0%
Primary Balance	**0.0%**	**2.9%**	**2.5%**	**2.4%**
Pensions and Trusts	-1.0%	-1.0%	-0.4%	-0.3%
Net lending/borrowing	**-4.5%**	**-1.7%**	**-1.8%**	**-1.9%**

Source: TPCG Research based on BCR

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