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El Salvador Strategy Flash

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El Salvador's 12m- accumulated fiscal position came in at -0.6% of GDP in October, while the primary balance clocked in at +3.2% of GDP, improving significantly relative to September. The fiscal deficit ended October well inside Dec-22 levels, clocking in with a 1.1pp improvement in YTD terms, consolidation which must be largely attributed to October's performance. During this month income sources rose by +0.1pp, increase that compounded with a significant slash in expenditures, which experienced a -1.0pp drop relative to September, compressing the fiscal deficit relative to last month's figures. NFPS income totaled 24.1pp of GDP in October (+0.1pp vs. September). The variation in the segment was mostly explained by a +0.1pp rise in tax revenues. The rest of the segments stood level with their Sep-23 figures. This slightly shuffled the composition of Income sources. Therefore, Tax revenues came in at 19.3% of GDP, accounting for 80.2% of Total Income, flat relative to September's figures.

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Outlays totaled 24.7pp of GDP in October, decreasing by -1.0pp relative to September. The drop in expenditure was driven by a variety of segments. Current outlays clocked in at 21.4pp of GDP, falling by -1.0pp relative to September. In turn, inside the segment, the drop came on the back of both Interest payments and Transfers, with the first being cut by -0.3pp while the latter posted a -0.2pp decrease. Still, there are another 0.5pp worth of consolidation within Current Outlays that are not showcased in the reported categories, which suggests the administration cut on other, unreported current expenditures. In this context, the government decided to maintain Capex levels plateaued, as the segment showcased no variation relative to September. Public Investment now stands at 3.2pp of GDP, with gross investment accounting for 2.8pp of GDP. With primary NFPS Income increasing by +0.1pp and primary NFPS expenditures falling by -1.0pp of GDP, the primary surplus improved significantly relative to September. In this context, the balance continues to stand at the increasingly healthy +3.2% level, well inside positive territory, and at a historic maximum for the administration.

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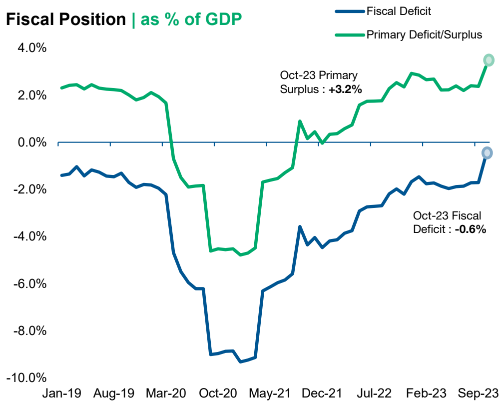
We find the recent fiscal prints to be credit-positive, as the administration is still conserving a hawkish fiscal bias. While half of the improvement in October's fiscal consolidation remains unexplained, the improvement in fiscal metrics is nevertheless substantial. In this context, we believe there are dual and complementary explanations to the consolidation efforts. The first seems to be that, even with elections incoming in 2024, 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. In this context, the administration seems to have some leeway regarding compressing fiscal outlays. In addition, 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. Therefore, we believe the lack of financing sources compounded with the relative unimportance of fiscal impulse in terms of the public image of Mr. Bukele provided additional incentives for the administration to put the pedal to the metal regarding fiscal consolidation.

Figure 1: October's fiscal figures



12m accumulated | % of GDP	dec-21	dec-22	sep-23	oct-23
Total Income	**24.1%**	**24.3%**	**24.0%**	**24.1%**
Current Income	24.1%	24.2%	23.9%	24.0%
Tax Revenues	19.6%	19.7%	19.2%	19.3%
Social System Contributions	2.2%	2.2%	2.2%	2.2%
Rest	2.3%	2.3%	2.6%	2.6%
Total Mandatory Outlays	**28.6%**	**25.9%**	**25.7%**	**24.7%**
Current Outlays	25.3%	23.3%	22.5%	21.4%
Consumption	15.6%	14.6%	14.6%	14.6%
Interest Payments	4.4%	4.6%	4.1%	3.8%
Current Transfers	5.3%	4.1%	3.8%	3.6%
Capital Expenditure	3.3%	2.7%	3.2%	3.2%
Net Loan Granting	0.0%	0.0%	0.0%	0.0%
Primary Balance	**0.0%**	**2.9%**	**2.4%**	**3.2%**
Pensions and Trusts	-1.0%	-1.0%	-0.3%	-0.2%
Net lending/borrowing	**-4.5%**	**-1.7%**	**-1.7%**	**-0.6%**

Source: TPCG Research based on BCR

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