Santiago Resico
LATAM Strategist
sresico@tpcgco.com
+54 11 4898 6615

El Salvador Strategy Flash

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El Salvador 12m- accumulated fiscal position came in at -2.2% of GDP in November, while the primary balance clocked in at +2.6p of GDP, worsening since October. After overperforming the established target for 2021, the fiscal balance continues its compression, tightening by nearly 2.4pp relative to December. During November income remained flat relative to October, while a strong +0.3pp surge in Outlays was the main factor influencing the widening of the fiscal deficit. NFPS income totaled 25.2pp of GDP in November (+0.0pp vs October). Consistently, most sectors performed in line with October, with no significant variations in any subsections, as the composition of Income sources remained unchanged. Tax revenues came in at 20.6% of GDP, accounting for 81.6% of Total Income, increasing marginally relative to October's figures.

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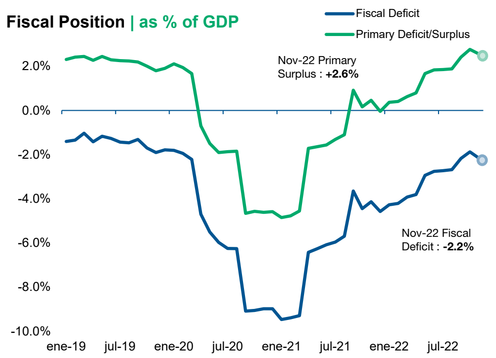
While the government is committed to improving the fiscal position, we believe expenditure seasonality is likely to dampen YTD consolidation during 4Q. Since the start of the 4Q, 12m rolling figures suffered a slowdown in their progression, as monthly figures in October showcased a strong reversal relative to recent months, posting a USD250mn deficit, with the monthly average this year standing at USD31mn. November's deficit came in in line with said average, but slightly weaker than Nov-21. Therefore, by the end of November, the government accumulated a USD341mn (-1.1% of GDP) fiscal deficit, and a USD1058mn (+3.4%of GDP) surplus in the primary balance. This stands to be an important pillar in the government's financing strategy, even more so now that the timid second bond repurchase offer signals the administration's cash needs are tighter than initially envisaged, with the 2023's payment weeks away.

Figure 1: November's fiscal figures



12m accumulated | % of GDP	dic-20	dic-21	oct-22	nov-22
Total Income	**23.4%**	**24.7%**	**25.2%**	**25.2%**
Current Income	22.9%	24.7%	25.2%	25.2%
Tax Revenues	18.5%	20.1%	20.6%	20.6%
Social System Contributions	2.4%	2.3%	2.3%	2.3%
Rest	2.5%	2.4%	2.4%	2.3%
Total Mandatory Outlays	**32.3%**	**29.3%**	**27.1%**	**27.4%**
Current Ouytlays	27.7%	25.9%	24.3%	24.4%
Consumption	17.0%	16.0%	15.3%	15.3%
Interest Payments	4.4%	4.5%	4.6%	4.7%
Current Transfers	6.2%	5.4%	4.4%	4.4%
Capital Expenditure	2.8%	3.4%	2.8%	2.9%
Net Loan Granting	1.9%	0.0%	0.0%	0.0%
Primary Balance	**-4.6%**	**0.0%**	**2.8%**	**2.6%**
Pensions and Trusts	-3.4%	-1.0%	-1.0%	-1.0%
Net lending/borrowing	**-9.0%**	**-4.6%**	**-1.9%**	**-2.2%**

Source: TPCG Research based on BCR

TPCG Analysts & Staff

Research

Juan Manuel Pazos	**Chief Economist**	**jmpazos@tpcgco.com**	**+54 11 4898-6606**
Paula La Greca	Corporate Research Analyst	plagreca@tpcgco.com	+54 11 4898-6638
Federico Martin	Strategist	famartin@tpcgco.com	+54 11 4898-6633
Santiago Resico	LATAM Strategist	sresico@tpcgco.com	+54 11 4898-6615

Sales & Trading

Juan Manuel Truppia	**Head of Sales & Trading**	**jmtruppia@tpcgco.com**	**+54 11 4898-6659**
Juan Martin Longhi	S&T Director	jlonghi@tpcgco.com	+54 11 4898-6656
Lucia Rodriguez Pardina	S&T Director	lrodriguezpardina@tpcgco.com	+54 11 4898-6614
Agustina Guadalupe	Sales	aguadalupe@tpcgco.com	+54 11 4898-6682
Maria Pilar Hurtado	Sales	mhurtado@tpcgco.com	+54 11 4898-6616
Juan Ignacio Vergara	Sales	jivergara@tpcgco.com	+54 11 4898-1936
Santiago Baibiene	Sales	sbaibiene@tpcgco.com	+54 11 4898-6648
Pedro Nollmann	Sales	pnollmann@tpcgco.com	+54 11 4898-6617
María Ruiz de Castroviejo Salas	Sales	mruizdecastroviejo@tpcgco.com	+54 11 4898-6643
Victoria Faynbloch	Desk Analyst	vfaynbloch@tpcgco.com	+54 11 4898-6635
Felipe Freire	Trader	ffreire@tpcgco.com	+54 11 4898-1921
Homero Fernandez Bianco	Trader	hfbianco@tpcgco.com	+54 11 4898-6667
Andres Robertson	Trader	arobertson@tpcgco.com	+54 11 4898-6693

Corporate Banking

José Ramos	**Head of Corporate Banking**	**jramos@tpcgco.com**	**+54 11 4898-6645**
Camila Martinez	Corporate Sales	cmartinez@tpcgco.com	+54 11 4898-6621
Fernando Depierre	Corporate Sales	fdepierre@tpcgco.com	+54 11 4898-6636
Sol Silvestrini	Corporate Sales	ssilvestrini@tpcgco.com	+54 11 4898-6641
Nicolas Iglesias	Corporate Sales	niglesias@tpcgco.com	+54 11 4898-6612

Capital Markets

Fernando Lanus	**Head of Capital Markets**	**flanus@tpcgco.com**	**+54 11 4898-6632**
Nicolás Alperín	Investment Banking Analyst	nalperin@tpcgco.com	+54 11 4898-6604

Asset Management

Ileana Aiello	**Portfolio Manager**	**iaiello@tpcgco.com**	**+54 11 4898-6611**
Claudio Achaerandio	**Portfolio Manager**	**cachaerandio@tpcgco.com**	**+54 11 4898-6618**

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