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El Salvador Strategy Flash

El Salvador fiscal balance closed 2022 at -1.7% of GDP

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El Salvador's fiscal position ended 2022 at -1.7% of GDP, compressing by 2.8pp relative to 2021. The primary balance clocked in at +3.0% of GDP, managing to close the year well inside positive territory. El Salvador managed to close a superlative 2022, beating the IMF estimate of -4.8% of GDP by a wide margin, and consolidating the fiscal balance significantly, surpassing all expectations. The compression of the fiscal position was spearheaded by an increase in Income sources, closing a record year in tax intake, in addition to a sober reduction in Expenditure. The former segment ended the year at 25.3% of GDP, increasing by +0.1pp relative to November. Said improvement came on the back of higher tax collections, compounded with marginal increases in Soc.Sec. contributions and the SOE's operative surplus. In the yearly department, the income segment posted a +0.5pp increase relative to 2021. The rise came in the back of a sizable +0.5pp rise in Tax revenues, which was partly offset by a -0.1pp reduction in Non-Tax income. However, dual rises in Soc.Sec contributions and the SOE's operative surplus managed to overcome said drop. The rest of the segments remained flat relative to 2021.

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Outlays instead totaled 27% of GDP, dropping by 0.5pp relative to November, and compressing by 2.3pp against 2021 figures. The monthly decrease came on the back of a 0.3pp drop in Current Outlays, which in turn was caused by a -0.2pp drop in Goods & Services, in addition to another 0.2pp fall in Current transfers. However, a 0.1pp increase in Interest payments shaved away part of the consolidation. In addition, Capex dropped by another 0.2pp, completing the picture. In the yearly department, the drop was massive, as expenditure fell by 2.3pp of GDP relative to 2021. In this context, Current Outlays spearheaded the consolidation, compressing by 1.6pp. The Goods & Services subsection led the drop, falling by 0.8pp, with Current Transfers decreasing even further, by 1.1pp. However, said drops were marginally offset by increased financing costs, as Interests rose by 0.2pp. Capex also contributed to the consolidation, dropping by -0.7pp, on the back of a 1pp reduction in Gross Investment and a 0.3pp increase in Capital Transfers. In this context, with a 0.5pp increase in Income sources and a 2.3pp drop in Outlays, YTD consolidation totaled 2.8pp, managing to drive the fiscal deficit from -4.6% of GDP to -1.7% of GDP. The primary balance performed similarly, as after ending 2021 near the neutral mark, it sprinted to a +3% of GDP surplus by year-end.

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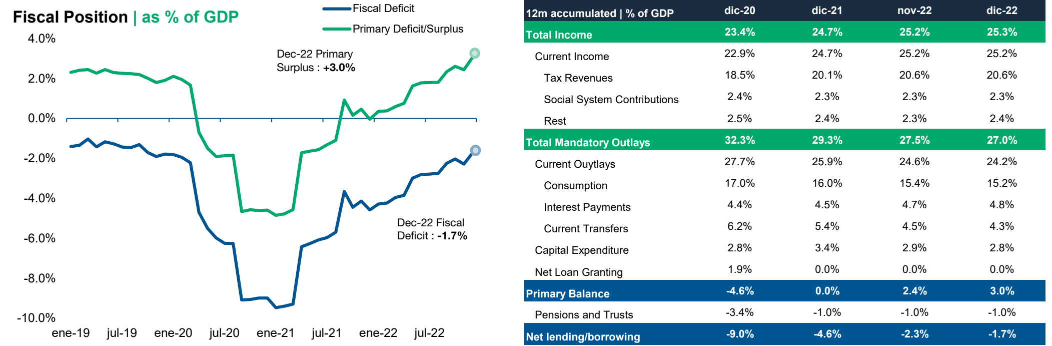
Looking at 2023, we expect fiscal figures to suffer slightly, as the economic slowdown could impact income sources, albeit remaining at healthy levels. The administration started 2023 on a high, closing 2022 with a substantial primary surplus and paying the remaining USD604mn outstanding of its 2023 Eurobond. The administration accrued a USD950mn primary surplus throughout 2022 and was able to face all its obligations. Now, it can profit from the sizable gap in the external payment profile caused by the buyback, which, with the exception of the USD350mn 2025 sinking, left the USD800mn payable in 2027 as the next big challenge. In this context, we expect the administration to cope with its financing needs throughout the year with relative ease, given the economic situation does not deteriorate substantially. Having placed the fiscal position at healthy levels, and with no huge payments in sight, we expect the administration to relax its fiscal stance slightly, especially as the positive income dynamics enjoyed during 2022 are not likely to spill over to 2023, as slower economic growth should result in a more sluggish tax collection. On the expenditure side, we do not expect the administration to initiate another aggressive consolidation during 2023, especially as elections close in. On the other hand, we do not believe the government needs to pump outlays to win the 2024 elections, as its outstanding popularity ratings stem from the exception regime, rather than from fiscal impulse. All in all, we expect the

administration will continue to steer the fiscal position towards healthy figures, but these should relax slightly on the back of a reduction in Income growth and as the need to face substantial (and imminent) obligations starts to fade.

Figure 1: December's fiscal figures



12m accumulated | % of GDP	dic-20	dic-21	nov-22	dic-22
Total Income	23.4%	24.7%	25.2%	25.3%
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%	2.3%	2.4%
Total Mandatory Outlays	32.3%	29.3%	27.5%	27.0%
Current Ouytlays	27.7%	25.9%	24.6%	24.2%
Consumption	17.0%	16.0%	15.4%	15.2%
Interest Payments	4.4%	4.5%	4.7%	4.8%
Current Transfers	6.2%	5.4%	4.5%	4.3%
Capital Expenditure	2.8%	3.4%	2.9%	2.8%
Net Loan Granting	1.9%	0.0%	0.0%	0.0%
Primary Balance	-4.6%	0.0%	2.4%	3.0%
Pensions and Trusts	-3.4%	-1.0%	-1.0%	-1.0%
Net lending/borrowing	-9.0%	-4.6%	-2.3%	-1.7%

Source: TPCG Research based on BCR

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