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El Salvador Strategy Flash

Quarterly GDP clocked in at +1.2%yoy in 4Q22, with yearly growth amounting to +2.6%

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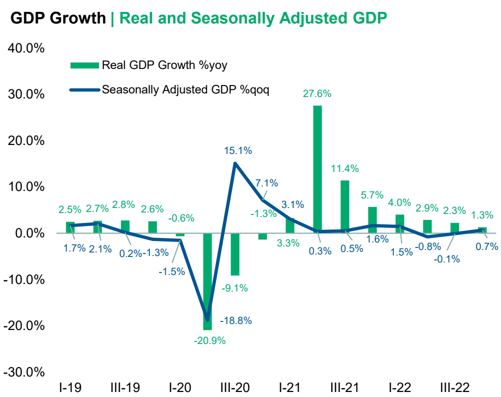
El Salvador's GDP grew by +1.2%yoy in 4Q22, with yearly figures clocking in at +2.6%yoy, slightly under government expectations. Looking at the supply side, the main driver behind yearly growth was the Services sector, which continued its recovery beyond pre-pandemic levels, standing +2.7% over 2019 figures. Inside the sector, Professional Activities (+9.4%yoy), Administrative and Support Services (+7.8%yoy), Entertainment (+6.1%yoy), and Transport (+5.4%yoy) were the best performers. The secondary sector posted a mixed performance in 2022, with Manufacturing dropping by -0.5%yoy, fall which was offset by a strong performance from both Construction (+8.2%yoy) and Power and Electricity (+14.5%yoy). The primary sector closed a weak 2022, with Agriculture rising marginally (+0.6%yoy) and Mining dropping by -13.9%yoy. The quarterly print showcased a similar trend, but with stronger variations on both ends of the spectrum. Services performed mostly in line with the yearly print, with Entertainment (+7.3%yoy), Transport (+6%yoy), Public Administration (+5.6%yoy) and Communications (+4.5%yoy) being the strongest performers. The secondary sector's print drove yearly performance, as Manufacturing dropped by -5%yoy, and Construction rose by +18.5%yoy. Finally, the primary sector managed to post a solid quarter to overturn a weak rest of the year, as both Agriculture (+1.6%yoy) and Mining (+8.3%yoy) clocked in with positive variations.

Figure 1: Growth continued to slow down during 4Q22



%yoy	2021	1Q22	2Q22	3Q22	4Q22	2022
GDP	11.2%	4.5%	2.5%	2.2%	1.2%	2.6%
Agriculture,Livestock and Fishing	4.0%	2.0%	-0.7%	0.1%	1.6%	0.6%
Mining	11.8%	-26.5%	-22.9%	10.3%	8.3%	-13.9%
Manufacture	14.2%	4.8%	-1.1%	-0.9%	-5.0%	-0.5%
Power and electricity	2.6%	8.4%	16.7%	13.2%	19.6%	14.5%
Water	5.5%	4.4%	-0.4%	0.7%	-0.5%	1.0%
Construction	7.0%	0.2%	3.5%	10.8%	18.5%	8.2%
Services	14.3%	5.7%	4.5%	3.7%	3.0%	4.2%
Commerce	12.3%	1.9%	2.8%	2.3%	1.5%	2.1%
Transport	13.5%	9.7%	2.4%	4.2%	6.0%	5.4%
Hosting and Food services	29.8%	9.7%	5.6%	0.5%	2.3%	4.3%
Communications	11.0%	1.1%	6.4%	3.8%	4.5%	4.0%
Financing and Insurance	6.6%	2.2%	1.3%	2.4%	0.6%	1.6%
Entertainment	57.3%	9.5%	2.2%	5.9%	7.3%	6.1%
Other Services	12.3%	4.7%	5.1%	1.3%	3.0%	3.5%
Gross value added	10.2%	4.0%	2.8%	3.2%	2.4%	3.1%
Net Taxes	20.3%	7.9%	1.0%	-7.0%	-9.0%	-1.7%

Source: TPCG Research based on BCR

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The demand side also performed well, with Internal Demand growing at a similar pace as the general economy, while the external sector chipped in with a solid contribution, both in the yearly and quarterly scenarios. In the former, a robust increase in PCE (+2.6%yoy) was partially offset by a reduction in Govt. Consumption, which receded by -1.5%yoy, as the administration put the pedal to the metal regarding fiscal consolidation. Final Consumption then experienced a +1.8%yoy rise. Investment grew in line with the general economy, exhibiting a +2.6%yoy rise. The external sector also supported growth at the yearly level, as the +10.2%yoy rise in Exports outweighed the +1.2%yoy increase in Imports. In this regard, the tempo of the 4Q dictated the general trend, as a -11.7%yoy drop in Imports slowed significantly the annual growth of the segment, while Exports continued to enjoy healthy dynamics, climbing by +6.3%yoy, albeit, slowing down relative to the yearly tendency. Instead, the Internal Demand during 4Q behaved differently than the annual data, tempering the yearly trend. PCE rose by a more meager +1%yoy, while Govt. Consumption increased by +2.2%yoy. Final Consumption then clocked in at +1.2%yoy, in line with the general quarterly growth. Finally, investment slightly overperformed yearly growth during 4Q, rising by +3.1%yoy.

Figure 2: BCR estimates put growth in the 2-3% range for 2023

yoy %	2021	1Q22	2Q22	3Q22	4Q22	2022
GDP	11.2%	4.5%	2.5%	2.2%	1.2%	2.6%
Final Consumption	14.4%	4.3%	0.1%	1.9%	1.2%	1.8%
PCE	16.1%	4.8%	2.0%	2.8%	1.0%	2.6%
Govt. Consumption	7.2%	2.2%	-7.6%	-1.9%	2.2%	-1.5%
Investment	25.1%	-8.6%	9.4%	7.0%	3.1%	2.6%
Exports	29.4%	12.7%	10.3%	11.7%	6.3%	10.2%
Imports	28.9%	11.8%	6.6%	0.6%	-11.7%	1.2%

Source: TPCG Research based on BCR

In this context, the SA index presented a positive +0.7%qoq rise, with the administration expecting growth for 2023 in the 2-3% range.

In this context, the SA index presented a positive +0.7%qoq rise, with the administration expecting growth for 2023 in the 2-3% range. On positive news, the SA qoq growth returned to positive levels, after a 2Q22 print of -0.8%qoq and a -0.1%qoq print in 3Q22. This conveys the economy could temporarily return to growing patterns, even as the impulse provided by the positive economic dynamics post-COVID wanes off. For 2023, the administration continues to see growth in the 2%-3% range, given 2022 ended with a +2.6%yoy GDP increase, close to their estimation of +2.8%yoy. In our view, we believe growth is poised to slow down, hovering around the +1.8% mark. Even as the economy closed 2022 relatively positively, it isn't easy to see the positive catalysts from 2022 spilling over to 2023. Remittance growth slowed down in recent months. Their momentum will likely fade during 2023, in a context where an adverse global scenario should could hamper remittances, weakening consumption, as they are closely related to PCE. Our baseline scenario sees internal demand slowing down, mimicking remittances, with the external sector contributing slightly to growth. Exports should continue exhibiting positive dynamics, and imports should slow down, driven by sluggish consumption and lower energy prices.

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