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May 2, 2023

El Salvador Strategy Flash

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El Salvador's 12m- accumulated fiscal position came in at -1.7% of GDP in March, while the primary balance clocked in at +2.6p of GDP, unchanged since February. The fiscal deficit ended the 1Q23 flat relative to Dec-22 levels, even after a marginal compression in January, which was offset by a slightly weaker February. However, during March income sources and outlays dropped by -0.3pp relative to February, maintaining the fiscal deficit at constant levels. NFPS income totaled 23.5pp of GDP in March (-0.3pp vs February). The variation in the segment was singlehandedly explained by a 0.3pp drop in tax revenues, with the rest of the sectors suffering practically no variations during the first quarter of 2023. With no significant changes in any subsections, the composition of Income sources remained unchanged. Therefore, Tax revenues came in at 19% of GDP, accounting for 80.8% of Total Income, decreasing marginally relative to February's figures.

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Outlays totaled 25.2pp of GDP in March, dropping by -0.3pp relative to February. The decrease in expenditure was driven by a dual reduction in Non-Personnel outlays and Transfers. Current outlays clocked in at 22.4pp of GDP dropping by -0.4pp relative to February. In turn, inside the segment, both Consumption of Goods and Services and Transfers spearheaded the trim, being cut by -0.2pp of GDP each. Instead, the rest of the sectors stood flat against last month's figures. Capex partially offset the expenditure compression, increasing by +0.1pp, resulting from a 0.1pp rise in Gross investment. Public Investment now stands at 2.8pp of GDP, with gross investment accounting for 2.4pp of GDP. With NFPS Income dropping by -0.3pp and NFPS expenditures also falling by -0.3pp of GDP, the primary balance came unchanged relative to February, as the drop in income sources was completely offset by a drop in expenditure. Moreover, the balance continues to stand at the very healthy +2.6% level, well inside positive territory.

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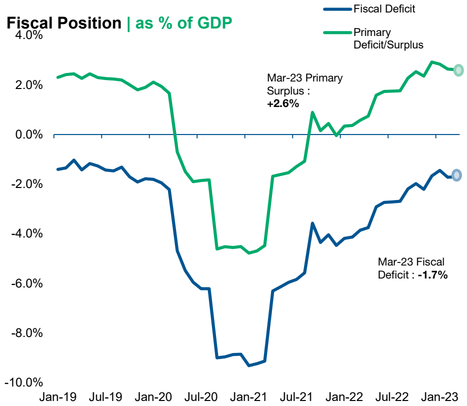
While the government is committed to improving its fiscal position, we believe the slowdown in economic activity is likely to dampen consolidation during 2023. The slightly underwhelming 2022 GDP print reaffirms our expectations of income growth becoming more sluggish, as its biggest contributor, tax revenues, is poised to slow down following the economic scenario. In addition, 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. Still, 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. 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.

Figure 1: March's fiscal figures



12m accumulated | % of GDP	dec-21	dec-22	feb-23	mar-23
Total Income	**24.1%**	**24.3%**	**23.8%**	**23.5%**
Current Income	24.1%	24.2%	23.8%	23.5%
Tax Revenues	19.6%	19.7%	19.3%	19.0%
Social System Contributions	2.2%	2.2%	2.2%	2.2%
Rest	2.3%	2.3%	2.3%	2.3%
Total Mandatory Outlays	**28.6%**	**25.9%**	**25.5%**	**25.2%**
Current Ouytlays	25.3%	23.3%	22.8%	22.4%
Consumption	15.6%	14.6%	14.5%	14.3%
Interest Payments	4.4%	4.6%	4.4%	4.3%
Current Transfers	5.3%	4.1%	3.9%	3.7%
Capital Expenditure	3.3%	2.7%	2.7%	2.8%
Net Loan Granting	0.0%	0.0%	0.0%	0.0%
Primary Balance	**0.0%**	**2.9%**	**2.6%**	**2.6%**
Pensions and Trusts	-1.0%	-1.0%	-0.8%	-0.7%
Net lending/borrowing	**-4.5%**	**-1.7%**	**-1.7%**	**-1.7%**

Source: TPCG Research based on BCR

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