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

Strategy Flash – El Salvador

June 1, 2023

El Salvador Strategy Flash

The fiscal position clocked in at -1.8% of GDP in April

El Salvador's 12m-accumulated fiscal position came in at -1.8% of GDP in April, while the primary balance clocked in at +2.2p of GDP, dropping by 0.5pp since March.

El Salvador's 12m- accumulated fiscal position came in at -1.8% of GDP in April, while the primary balance clocked in at +2.2p of GDP, dropping by 0.5pp since March. The fiscal deficit ended April just 0.1pp below Dec-22 levels, even after a marginal compression in January, which was then offset by slightly weaker monthly prints since. However, during April income sources dropped by -0.3pp, outpacing outlays, which experienced a -0.2pp drop relative to March, widening the fiscal deficit by 0.1pp. NFPS income totaled 23.3pp of GDP in April (-0.3pp vs March). 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 since the start of the year. With no significant changes in any subsections, the composition of Income sources remained unchanged. Therefore, Tax revenues came in at 18.3% of GDP, accounting for 80.2% of Total Income, decreasing marginally relative to March's figures.

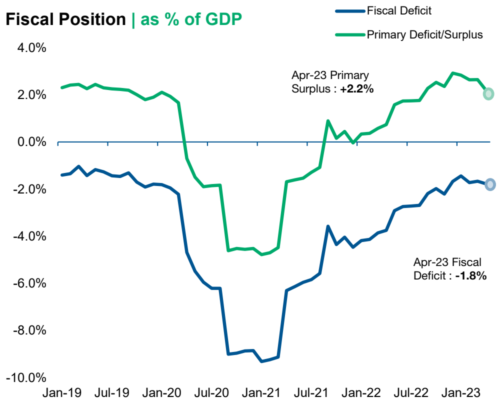
Outlays totaled 25.1pp of GDP in April, dropping by -0.2pp relative to March. The decrease in expenditure was driven by a reduction in Interest Payments.

Outlays totaled 25.1pp of GDP in April, dropping by -0.2pp relative to March. The decrease in expenditure was driven by a reduction in Interest Payments. Current outlays clocked in at 22.1pp of GDP dropping by -0.3pp relative to February. In turn, inside the segment, the fall was driven by Interest payments, which dropped by exactly 0.3pp. However, this cut was slightly diluted by the Transfers subsection, as it rose by 0.1pp partially offsetting the tightening Interest expenses. In addition, Capex also partially offset the expenditure compression, increasing by +0.1pp, resulting from a 0.1pp rise in Gross investment. Public Investment now stands at 2.9pp of GDP, with gross investment accounting for 2.5pp of GDP. With NFPS Income dropping by -0.3pp and NFPS expenditures falling by -0.2pp of GDP, the primary surplus experienced a -0.5pp compression relative to March, mostly due to reduced interest payments and falling income sources. Still, the balance continues to stand at the very healthy +2.2% level, well inside positive territory.

While the government is committed to improving its fiscal position, the slowdown in economic activity is starting to hamper consolidation during 2023.

While the government is committed to improving its fiscal position, the slowdown in economic activity is starting to hamper 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: April's fiscal figures



12m accumulated | % of GDP	dec-21	dec-22	mar-23	abr-23
Total Income	**24.1%**	**24.3%**	**23.5%**	**23.3%**
Current Income	24.1%	24.2%	23.5%	23.2%
Tax Revenues	19.6%	19.7%	19.0%	18.7%
Social System Contributions	2.2%	2.2%	2.2%	2.2%
Rest	2.3%	2.3%	2.4%	2.4%
Total Mandatory Outlays	**28.6%**	**25.9%**	**25.2%**	**25.1%**
Current Ouytlays	25.3%	23.3%	22.4%	22.1%
Consumption	15.6%	14.6%	14.3%	14.4%
Interest Payments	4.4%	4.6%	4.3%	4.0%
Current Transfers	5.3%	4.1%	3.7%	3.8%
Capital Expenditure	3.3%	2.7%	2.8%	2.9%
Net Loan Granting	0.0%	0.0%	0.0%	0.0%
Primary Balance	**0.0%**	**2.9%**	**2.7%**	**2.2%**
Pensions and Trusts	-1.0%	-1.0%	-0.7%	-0.7%
Net lending/borrowing	**-4.5%**	**-1.7%**	**-1.7%**	**-1.8%**

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**
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**

Important Disclaimer

The document, and the information, opinions, estimates and recommendations expressed herein, have been prepared by TPCG Valores SAU to provide its customers with general information regarding the date of issue of the report and are subject to changes without prior notice. TPCG Valores SAU is not liable for giving notice of such changes or for updating the contents hereof. The document and its contents do not constitute an offer, invitation or solicitation to purchase or subscribe to any securities or other instruments, or to undertake or divest investments. Neither shall the document nor its contents form the basis of any contract, commitment or decision of any kind.

Investors who have access to the document should be aware that the securities, instruments or investments to which it refers may not be appropriate for them due to their specific investment goals, financial positions or risk profiles, as these have not been taken into account to prepare the report. Therefore, investors should make their own investment decisions considering the said circumstances and obtain such specialized advice as may be necessary.

The contents of the document are based upon information available to the public that has been obtained from sources considered to be reliable. However, such information has not been independently verified by TPCG Valores SAU, and therefore no warranty, either express or implicit, is given regarding its accuracy, integrity or correctness. TPCG Valores SAU. accepts no liability of any type for any direct or indirect losses arising from the use of the document or its contents. Investors should note that the past performance of securities or instruments or the historical results of investments do not guarantee future performance. The market prices of securities or instruments or the results of investments could fluctuate against the interests of investors. Investors should be aware that they could even face a loss of their investment.

Transactions in futures, options and securities or high-yield securities can involve high risks and are not appropriate for every investor. Indeed, in the case of some investments, the potential losses may exceed the amount of initial investment and, in such circumstances; investors may be required to pay more money to support those losses. Thus, before undertaking any transaction with these instruments, investors should be aware of their operation, as well as the rights, liabilities and risks implied by the same and the underlying stocks. Investors should also be aware that secondary markets for the said instruments may be limited or even not exist.

TPCG Valores SAU. and/or any of its affiliates, as well as their respective directors, executives and employees, may have a position in any of the securities or instruments referred to, directly or indirectly, in the document, or in any other related thereto; they may trade for their own account or for third-party account in those securities, provide consulting or other services to the issuer of the aforementioned securities or instruments or to companies related thereto or to their shareholders, executives or employees, or may have interests or perform transactions in those securities or instruments or related investments before or after the publication of the report, to the extent permitted by the applicable law.

TPCG Valores SAU or any of its affiliates' salespeople, traders and other professionals may provide oral or written market Commentary or trading strategies to its clients that reflect opinions that are contrary to the opinions expressed herein. Furthermore, TPCG Valores SAU, or any of its affiliates' proprietary trading and investing businesses, may make investment decisions that are inconsistent with the recommendations expressed herein.

No part of the document may be (i) copied, photocopied or duplicated by any other form or means (ii) redistributed or (iii) quoted without the prior written consent of TPCG Valores SAU. No part of the report may be copied, conveyed, distributed or furnished to any person or entity in any country (or persons or entities in the same) in which its distribution is prohibited by law. Failure to comply with these restrictions may breach the laws of the relevant jurisdiction.

For U.S. persons only

This report is a product of TPCG, which is the employer of the research analyst(s) who has prepared the informative report. The research analyst(s) preparing this report is/are resident(s) outside the United States (U.S.) and is/are not associated person(s) of any U.S. regulated broker-dealer and therefore the analyst(s) is/are not subject to supervision by a U.S. broker-dealer and is/are not required to satisfy the regulatory licensing requirements of FINRA or required to otherwise comply with U.S. rules or regulations.

This report is intended for distribution by TPCG only to U.S. Institutional Investors and Major U.S. Institutional Investors, as defined by Rule 15a-6(b)(4) of the U.S. Securities and Exchange Act, 1934 (the Exchange Act) and interpretations thereof by the U.S. Securities and Exchange Commission (SEC), in reliance on Rule 15a 6(a)(2). If the recipient of this report is not a a US Institutional Investors nor a Major U.S. Institutional Investor, as specified above, then he should not act upon this report and return it to the sender. Further, this report may not be copied, duplicated and/or transmitted to any U.S. person, which is not a U.S. Institutional Investor, nor a Major U.S. Institutional Investor.

In order to comply with the US regulations, our transactions with US Institutional Investors and Major US Institutional Investors are effected through the US-registered broker-dealer Marco Polo Securities Inc. ("Marco Polo"). Transactions in securities discussed in this report should be effected through Marco Polo or another U.S. registered broker dealer.