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

El Salvador Strategy Flash

The fiscal position clocked in at -1.9% of GDP in May

El Salvador's 12m-accumulated fiscal position came in at -1.9% of GDP in May, while the primary balance clocked in at +2.3p of GDP, remaining flat relative to April.

El Salvador's 12m- accumulated fiscal position came in at -1.9% of GDP in May, while the primary balance clocked in at +2.3p of GDP, remaining flat relative to April. The fiscal deficit ended May just 0.2pp below Dec-22 levels, even after a marginal compression in January, which was then offset by slightly weaker monthly prints since. However, during May income sources rose by +0.2pp, outpaced by outlays, which experienced a +0.3pp increase relative to April, widening the fiscal deficit by 0.1pp. NFPS income totaled 24.1pp of GDP in May (+0.2pp vs April). The variation in the segment was singlehandedly explained by a 0.2pp rise in tax revenues, with the rest of the sectors suffering practically no variations since the start of the year. With no significant modifications in any subsections, the composition of Income sources remained unchanged. Therefore, Tax revenues came in at 19.3% of GDP, accounting for 80.1% of Total Income, decreasing marginally relative to April's figures.

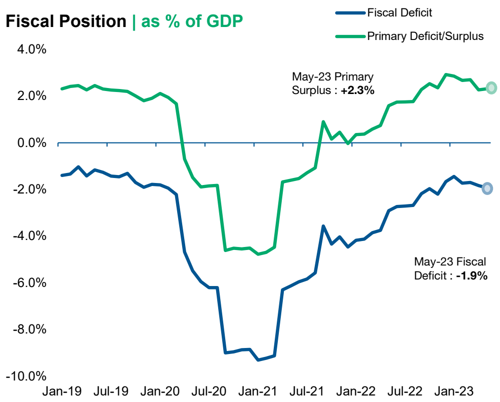
Outlays totaled 26pp of GDP in May, increasing by +0.3pp relative to April. The rise in expenditure was driven by a variety of segments.

Outlays totaled 26pp of GDP in May, increasing by +0.3pp relative to April. The rise in expenditure was driven by a variety of segments. Current outlays clocked in at 23pp of GDP rising by +0.3pp relative to April. In turn, inside the segment, the rise was driven by Consumption of Goods and Services, which hiked by 0.2pp, and by Interest payments, which surged by 0.1pp. However, this rise was slightly diluted by the Transfers subsection, as it dropped by 0.1pp partially offsetting the widening outlays. Capex also contributed to the expenditure widening, increasing marginally relative to April. The rise resulted from a 0.2pp rise in Gross investment, which was offset by a similar drop in Capital Transfers. Public Investment now stands at 3pp of GDP, with gross investment accounting for 2.7pp of GDP. With primary NFPS Income increasing by +0.2pp and primary NFPS expenditures rising by +0.2pp of GDP, the primary surplus remained flat relative to April. In this context, the balance continues to stand at the very healthy +2.3% 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 1Q23 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: May's fiscal figures



12m accumulated | % of GDP	dec-21	dec-22	abr-23	may-23
Total Income	**24.1%**	**24.3%**	**23.9%**	**24.1%**
Current Income	24.1%	24.2%	23.9%	24.0%
Tax Revenues	19.6%	19.7%	19.2%	19.3%
Social System Contributions	2.2%	2.2%	2.3%	2.3%
Rest	2.3%	2.3%	2.5%	2.5%
Total Mandatory Outlays	**28.6%**	**25.9%**	**25.8%**	**26.0%**
Current Ouytlays	25.3%	23.3%	22.7%	23.0%
Consumption	15.6%	14.6%	14.8%	15.0%
Interest Payments	4.4%	4.6%	4.1%	4.2%
Current Transfers	5.3%	4.1%	3.9%	3.8%
Capital Expenditure	3.3%	2.7%	3.0%	3.0%
Net Loan Granting	0.0%	0.0%	0.0%	0.0%
Primary Balance	**0.0%**	**2.9%**	**2.3%**	**2.3%**
Pensions and Trusts	-1.0%	-1.0%	-0.7%	-0.6%
Net lending/borrowing	**-4.5%**	**-1.7%**	**-1.8%**	**-1.9%**

Source: TPCG Research based on BCR

BoP flows continue to turn supportive

On positive news, BoP flows continue to align, as the 1Q23 Current Account deficit stood at -USD305mn, compressing by USD492mn vs 1Q22 -USD797mn figure.

On positive news, BoP flows continue to align, as the 1Q23 Current Account deficit stood at -USD305mn, compressing by USD492mn vs 1Q22 -USD797mn figure. In this context, the external sector proved more supportive during the first quarter of 2023. This mostly came on the back on twin improvements in the Trade and Services Balance. The former posted a +178mn improvement over 1Q22 figures. This came mostly on the back of reduced Imports, which dropped by -265mn. While neither Food nor Energy imports varied substantially, the rest of the segment did, suggesting Import dynamics were pummeled by the weakened activity levels. Export suffered marginally, dropping by -87mn relative to 1Q22. On the Services balance side, the latter clocked in with a 208mn additional surplus than in 1Q22. Primary income behaved mostly flat in yoy terms, while remittances also posted a slight improvement, coming in at 1890mn, 104mn over 1Q22 figures. In this context, the 12m-accumulated current account deficit came in at -5.2% of GDP (-USD1.7bn), which is a significant improvement over 1Q22 figures (-6%; -1.8bn), and also over 4Q22 figures, which closed a very difficult year for the Salvadoran external sector, as the deficit clocked in at -7.9% of GDP (-USD2.5bn).

Figure 2: The slowdown in growth aligned BoP flows

USD mn	2021	2022	2022 1Q	2023 1Q	Δ
Current Account	**-1485**	**-2570**	**-797**	**-305**	**492**
Trade Balance	-8223	-9993	-2328	-2149	178
Imports	14617	17108	4203	3939	-265
Energy Imports	1925	2824	644	651	7
Food Imports	1875	2244	534	580	46
Rest	10818	12040	3025	2708	-317
Exports	6395	7115	1876	1789	-87
Clothing/Maquila	2624	2746	712	625	-87
Rest	3771	4369	1164	1164	0
Services balance	881	1628	300	508	208
Primary Income	-1566	-1867	-543	-519	24
Secondary Income	7422	7662	1773	1855	82
o/w Remmitances	7453	7670	1786	1890	104
Capital Account	**270**	**261**	**131**	**47**	**-84**
Financial Account (- indicates inflow)	**-1694**	**-384**	**-449**	**-682**	**-232**
FDI	-308	101	227	-141	-368
Portfolio Investment	-303	503	-97	52	149
Derivatives	0	1	0	2	2
Other Investment	-1083	-989	-579	-595	-15
Net Errors&Ommisions	**-113**	**1222**	**661**	**-134**	**-795**
Reserve Assets	**359**	**-702**	**443**	**291**	**-152**
GDP (USDmn)	**29451**	**32489**	**30369**	**32888**	**2520**
Current Account (as % of GDP)	**-5.0%**	**-7.9%**	**-6.0%**	**-5.2%**	**0.8%**

Source: TPCG Research based on BCR

With BoP flows turning more supportive, we find external sector dynamics start to align, reducing the

With BoP flows turning more supportive, we find external sector dynamics start to align, reducing the risks of the former derailing the Salvadoran economy in 2023. Even with the already good 1Q23 figures, we expect the external situation to continue improving, as a slowdown in consumption and lower commodity and energy prices should result in a decrease in Imports,

risks of the former derailing the Salvadoran economy in 2023.

which in turn should tighten the economy's current account deficit, bringing it back to more sustainable levels. Still, in a scenario where remittance flows towards the country reduce, on the back of an unflattering international scenario or a recession in the US, the economy will not be able to sustain its Import rates and, in turn, its consumption. This scenario would strain tax revenues and force the administration to push for increased outlays to contain the massive drop in disposable income. This, in turn, should limit the government's fiscal policies and, with reduced financing sources, should raise questions about debt sustainability once again. However, the 1Q23 print reduced the probability of occurrence of said scenario, rendering the print credit positive, as we believe the external sector carried the greatest risk of derailing the administration's solid tenure, risk which was watered down by solid 1Q23 external numbers.

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

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.