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El Salvador Strategy Flash

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El Salvador's 12m- accumulated fiscal position came in at -1.8% of GDP in June, while the primary balance clocked in at +2.5p of GDP, improving relative to May. The fiscal deficit ended June 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 June income sources rose by +0.3pp, outpacing outlays, which experienced a +0.2pp increase relative to May, compressing the fiscal deficit by 0.1pp. NFPS income totaled 24.4pp of GDP in June (+0.3pp vs May). The variation in the segment was singlehandedly explained by a 0.3pp 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 19.5% of GDP, accounting for 80% of Total Income, decreasing marginally relative to May's figures.

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Outlays totaled 26.2pp of GDP in June, increasing by +0.2pp relative to May. The rise in expenditure was driven by a variety of segments. Current outlays clocked in at 23.2pp of GDP rising by +0.2pp relative to May. In turn, inside the segment, the rise was driven by Interest payments, which surged by 0.1pp, and Current Transfers, which hiked by another 0.1pp. Capex remained stable, showing no variation relative to May. Public Investment now stands at 3pp of GDP, with gross investment accounting for 2.7pp of GDP. With primary NFPS Income increasing by +0.3pp and primary NFPS expenditures rising by +0.2pp of GDP, the primary surplus improved relative to May. In this context, the balance continues to stand at the very healthy +2.5% level, well inside positive territory.

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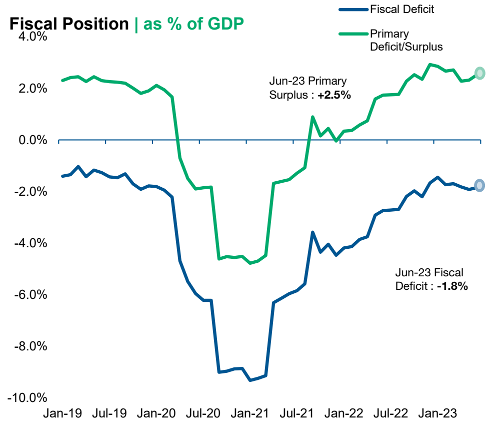
We find the recent fiscal prints to be credit positive, as even a slight slowdown in activity did not deter the administration from conserving a hawkish fiscal bias. We find the slightly underwhelming 1Q23 GDP print indicates the economy is giving signals of a slowdown, which also reaffirms our expectations of income growth becoming more sluggish. In this context, the administration did not opt to deploy additional fiscal stimuli to shore up economic activity, instead maintaining its fiscal balance at very healthy levels. Going forward, 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. However, it is also true that 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: June's fiscal figures



12m accumulated | % of GDP	dec-21	dec-22	may-23	jun-23
Total Income	**24.1%**	**24.3%**	**24.1%**	**24.4%**
Current Income	24.1%	24.2%	24.0%	24.3%
Tax Revenues	19.6%	19.7%	19.3%	19.5%
Social System Contributions	2.2%	2.2%	2.3%	2.3%
Rest	2.3%	2.3%	2.5%	2.6%
Total Mandatory Outlays	**28.6%**	**25.9%**	**26.0%**	**26.2%**
Current Ouytlays	25.3%	23.3%	23.0%	23.2%
Consumption	15.6%	14.6%	15.0%	14.9%
Interest Payments	4.4%	4.6%	4.2%	4.4%
Current Transfers	5.3%	4.1%	3.8%	3.9%
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%**	**2.5%**
Pensions and Trusts	-1.0%	-1.0%	-0.6%	-0.5%
Net lending/borrowing	**-4.5%**	**-1.7%**	**-1.9%**	**-1.8%**

Source: TPCG Research based on BCR

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