

El Salvador Strategy Flash

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

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El Salvador's 12m- accumulated fiscal position came in at -1.9% of GDP in July, while the primary balance clocked in at +2.3p of GDP, worsening relative to June. The fiscal deficit ended July 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 July income sources rose by +0.1pp, matching the growth pace of outlays, which experienced a twin +0.1pp increase relative to June, maintaining the fiscal deficit level with last month's figures. NFPS income totaled 24.4pp of GDP in July (+0.1pp vs. June). The variation in the segment was singlehandedly explained by a 0.2pp rise in tax revenues, with the rest of the sectors suffering marginal reductions which chipped away 0.1pp of GDP worth of Tax revenue increases. In this context, this effect slightly shuffled the composition of Income sources. Therefore, Tax revenues came in at 19.7% of GDP, accounting for 80.4% of Total Income, increasing relative to June's figures.

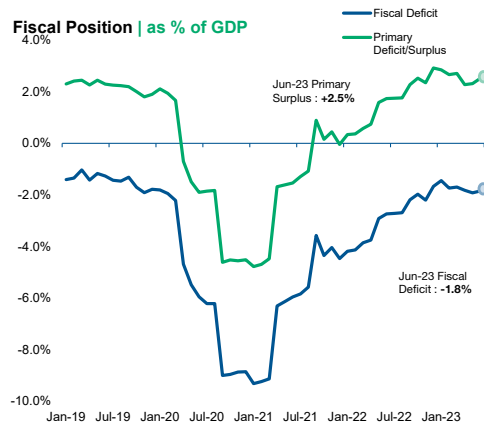
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Outlays totaled 26.3pp of GDP in July, increasing by +0.1pp relative to June. The rise in expenditure was driven by a variety of segments. Current outlays clocked in at 23.2pp of GDP, showing no variation relative to June. In turn, inside the segment, Consumption of goods and services exhibited a 0.1pp increase, which was offset by a 0.2pp drop in Interest payments, which continued to benefit from the repurchase program carried on by the administration last year. In this context, the government decided to deploy these extra monies into Capex which increased by 0.1pp relative to June. Public Investment now stands at 3.1pp of GDP, with gross investment accounting for 2.9pp of GDP. With primary NFPS Income increasing by +0.1pp and primary NFPS expenditures rising by +0.3pp of GDP, the primary surplus weakened relative to June. In this context, the balance continues to stand at the very healthy +2.3% level, well inside positive territory.

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We find the recent fiscal prints to be credit-positive, as the administration is still conserving a hawkish fiscal bias. 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, and most polls suggest so. 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: July's fiscal figures



Source: TPCG Research based on BCR

| 12m accumulated % of GDP | dec-21 | dec-22 | jun-23 | jul-23 |
|--------------------------------|--------------|--------------|--------------|--------------|
| Total Income | 24.1% | 24.3% | 24.3% | 24.4% |
| Current Income | 24.1% | 24.2% | 24.3% | 24.4% |
| Tax Revenues | 19.6% | 19.7% | 19.5% | 19.7% |
| 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% | 26.2% | 26.3% |
| Current Ouytlays | 25.3% | 23.3% | 23.2% | 23.2% |
| Consumption | 15.6% | 14.6% | 14.9% | 15.0% |
| Interest Payments | 4.4% | 4.6% | 4.4% | 4.2% |
| Current Transfers | 5.3% | 4.1% | 3.9% | 4.0% |
| Capital Expenditure | 3.3% | 2.7% | 3.0% | 3.1% |
| Net Loan Granting | 0.0% | 0.0% | 0.0% | 0.0% |
| Primary Balance | 0.0% | 2.9% | 2.5% | 2.3% |
| Pensions and Trusts | -1.0% | -1.0% | -0.5% | -0.5% |
| Net lending/borrowing | -4.5% | -1.7% | -1.9% | -1.9% |

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 | Strategist | sresico@tpcgco.com | +54 11 4898-6615 |

Sales & Trading

| | | | |
|---------------------|-------------------------|----------------------|------------------|
| Juan Manuel Truppia | Head of Sales & Trading | jmtruppia@tpcgco.com | +54 11 4898-6659 |
|---------------------|-------------------------|----------------------|------------------|

Institutional Sales

| | | | |
|---------------------------------|--------------|-------------------------------|------------------|
| 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 |

Trading

| | | | |
|-------------------------|--------|-----------------------|------------------|
| 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 Finance

| | | | |
|------------|---------------------------|-------------------|------------------|
| José Ramos | Head of Corporate Finance | jramos@tpcgco.com | +54 11 4898-6645 |
|------------|---------------------------|-------------------|------------------|

Corporate Sales

| | | | |
|-------------------|--------------------------|-------------------------|------------------|
| Camila Martinez | Corporate Sales Director | 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 Alperin | DCM | nalperin@tpcgco.com | +54 11 4898-6604 |
|-----------------|-----|---------------------|------------------|

Asset Management

| | | | |
|---------------------|-------------------|--------------------------|------------------|
| Ileana Aiello | Portfolio Manager | iaiello@tpcgco.com | +54 11 4898-6611 |
| Claudio Achaerandio | Portfolio Manager | catchaerandio@tpcgco.com | +54 11 4898-6618 |

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