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El Salvador Strategy Flash

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El Salvador's 12m- accumulated fiscal position came in at -1.4% of GDP in November, while the primary balance clocked in at +2.5% of GDP, worsening slightly relative to October. The fiscal deficit ended November inside Dec-22 levels, clocking in with a 0.3pp improvement in YTD terms, consolidation which must be largely attributed to October's performance. However, during this month income sources rose by +0.2pp, increase that was unable to keep up with the rise in expenditures, which hiked by 0.3pp relative to October, widening the fiscal deficit relative to last month's figures. NFPS income totaled 24.6pp of GDP in November (+0.2pp vs. October). The variation in the segment was mostly explained by a +0.1pp rise in tax revenues, while the rest of the segments showcased marginal improvements relative to their Oct-23 figures. This slightly shuffled the composition of Income sources. Therefore, Tax revenues came in at 19.7% of GDP, accounting for 80.1% of Total Income, slightly lower than October's figures.

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Outlays totaled 26pp of GDP in November, rising by +0.3pp relative to October. The increase in expenditure was driven by a variety of segments. Current outlays clocked in at 22.7pp of GDP, hiking by +0.3pp relative to October. In turn, inside the segment, the growth came on the back of both Consumption of Goods and Services and Interest payments, with the first rising by +0.2pp while the latter posted a +0.1pp increase. Transfers, on the other hand, remained plateaued relative to October's figures. In this context, Capex levels also showcased a positive variation, rising by +0.1pp, accounting for a rise of identical magnitude in Gross Investment. The segment now stands at 3.3pp of GDP, with gross investment accounting for 2.9pp of GDP. With primary NFPS Income increasing by +0.2pp and primary NFPS expenditures increasing by +0.3pp of GDP, the primary surplus weakened relative to October. In this context, the balance continues to stand at the healthy +2.5% of GDP level, well inside positive territory, and roughly at historic maximums for the administration.

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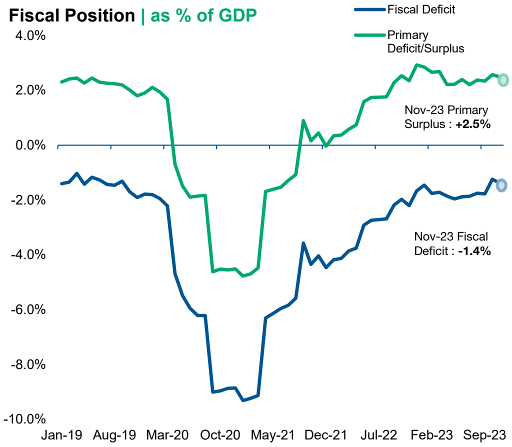
We find the recent fiscal prints to be credit-positive, as the administration is still conserving a hawkish fiscal bias. We find the improvement in fiscal metrics to be substantial. In this context, we believe there are dual and complementary explanations for the consolidation efforts. The first seems to be that, even with elections incoming in 2024, 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. In this context, the administration seems to have some leeway regarding compressing fiscal outlays. In addition, 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, with the 2024 budget pointing in that direction as well. Therefore, we believe the lack of financing sources compounded with its relative unimportance in terms of the public image of Mr. Bukele provided additional incentives for the administration to put the pedal to the metal regarding fiscal consolidation.

Figure 1: November's fiscal figures



12m accumulated | % of GDP	dec-21	dec-22	oct-23	nov-23
Total Income	**24.1%**	**24.3%**	**24.4%**	**24.6%**
Current Income	24.1%	24.2%	24.4%	24.6%
Tax Revenues	19.6%	19.7%	19.6%	19.7%
Social System Contributions	2.2%	2.2%	2.2%	2.2%
Rest	2.3%	2.3%	2.6%	2.7%
Total Mandatory Outlays	**28.6%**	**25.9%**	**25.7%**	**26.0%**
Current Outlays	25.3%	23.3%	22.4%	22.7%
Consumption	15.6%	14.6%	14.8%	15.0%
Interest Payments	4.4%	4.6%	3.8%	3.9%
Current Transfers	5.3%	4.1%	3.8%	3.8%
Capital Expenditure	3.3%	2.7%	3.3%	3.3%
Net Loan Granting	0.0%	0.0%	0.0%	0.0%
Primary Balance	**0.0%**	**2.9%**	**2.6%**	**2.5%**
Pensions and Trusts	-1.0%	-1.0%	-0.2%	-0.1%
Net lending/borrowing	**-4.5%**	**-1.7%**	**-1.2%**	**-1.4%**

Source: TPCG Research based on BCR

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