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El Salvador Strategy Flash

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El Salvador's 12m- accumulated fiscal position came in at -2.3% of GDP in December, while the primary balance clocked in at +1.6% of GDP, worsening significantly relative to November. The fiscal deficit ended 2023 0.6pp wide relative to Dec-22 levels, losing most of the ground it had gained during the year due to Dec-23 monthly figures, which widened the fiscal position significantly, while simultaneously weakening the strong primary position. During this month income sources rose by +0.3pp, an increase that was unable to keep up with the rise in expenditures, which hiked by a whooping 1.1pp relative to November, widening the fiscal deficit relative to last month's figures. NFPS income totaled 24.9pp of GDP in December (+0.3pp vs. November). The variation in the segment was mostly explained by a +0.2pp rise in tax revenues, which compounded with a 0.1pp rise caused by increases in Non-Tax income and the improvement in the SOE's primary balance. The rest of the segments remained flat relative to their Nov-23 figures. This slightly shuffled the composition of Income sources. Therefore, Tax revenues came in at 19.8% of GDP, accounting for 79.7% of Total Income, slightly lower than November's figures.

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Outlays totaled 27.2pp of GDP in December, rising by +1.1pp relative to November. The increase in expenditure was mainly driven by the Capex segment. Current outlays clocked in at 22.9pp of GDP, hiking by +0.1pp relative to November. In turn, inside the segment, the growth came on the back of both Consumption of Goods and Services and Interest payments, with both rising by +0.1pp while Transfers, on the other hand, decreased by -0.1pp relative to November's figures, offsetting part of the increase. In this context, the main hike came in the form of Capex, which showcased a massive surge in December. The segment experienced a 1pp rise during this month, which came on behalf of a 1pp increase in Gross Investment. The segment now stands at 4.3pp of GDP, with gross investment accounting for 3.9pp of GDP. With primary NFPS Income increasing by +0.3pp and primary NFPS expenditures increasing by +1.1pp of GDP, the primary surplus weakened significantly relative to November. In this context, the balance continues to stand at a healthy +1.6% of GDP level, well inside positive territory, albeit it was severely dented by the administration's deployment of fiscal stimuli in December.

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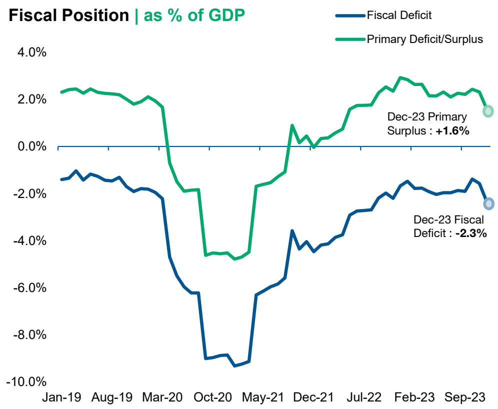
While the administration had conserved a significantly hawkish bias throughout 2023, this slippage might respond to the incoming legislative elections, albeit we do not believe the administration's popularity stems from its fiscal bias. Up until November, the administration showcased conservative management of public finances, maintaining a wide primary surplus, responding to both the administration's character and the lack of funding sources faced by the Salvadoran Government. December however points to a significant change of pace by the administration, as the massive increase in capex expenditure seems to be responding to the election cycle, which is now very close. On February 4th, both legislative and presidential elections are bound to take place, with Mr. Bukele running for reelection. With his sky-high popularity ratings, it seems the administration will be able to secure policy continuity. This election is key, as normally legislative elections take place every three years, while presidential elections do so every five. This means that in 2024 these two races compound, marking next Sunday as a date of massive importance for the political space. In this context, it seems the administration does not want to take any chances and deployed significant fiscal stimuli to ensure reelection for Mr. Bukele and a substantial majority in the Assembly. Still, we continue to believe 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. While the increase in expenditure mas substantial, accounting for more than 1pp of GDP in December, the fiscal position continues to be adequate, even if such a massive fiscal slippage is credit-negative, especially given El Salvador's lack of financing sources. All in all, we expect the effect of the election cycle to be seasonal, affecting January's fiscal figures as well, albeit further fiscal slippages might start to threaten debt sustainability, but seem more unreasonable given the administration's track record.

Figure 1: December's fiscal figures



12m accumulated | % of GDP	dec-21	dec-22	nov-23	dic-23
Total Income	**24.1%**	**24.3%**	**24.6%**	**24.9%**
Current Income	24.1%	24.2%	24.5%	24.8%
Tax Revenues	19.6%	19.7%	19.7%	19.8%
Social System Contributions	2.2%	2.2%	2.2%	2.2%
Rest	2.3%	2.3%	2.7%	2.8%
Total Mandatory Outlays	**28.6%**	**25.9%**	**26.2%**	**27.2%**
Current Outlays	25.3%	23.3%	22.8%	22.9%
Consumption	15.6%	14.6%	15.2%	15.3%
Interest Payments	4.4%	4.6%	3.9%	3.9%
Current Transfers	5.3%	4.1%	3.8%	3.7%
Capital Expenditure	3.3%	2.7%	3.3%	4.3%
Net Loan Granting	0.0%	0.0%	0.0%	0.0%
Primary Balance	**0.0%**	**2.9%**	**2.3%**	**1.6%**
Pensions and Trusts	-1.0%	-1.0%	-0.1%	0.0%
Net lending/borrowing	**-4.5%**	**-1.7%**	**-1.6%**	**-2.3%**

Source: TPCG Research based on BCR

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