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

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El Salvador Strategy Flash

The fiscal position clocked in at -2.1% of GDP in January

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El Salvador's 12m- accumulated fiscal position came in at -2.1% of GDP in January, while the primary balance clocked in at +1.8% of GDP, posting an improvement relative to December. The fiscal deficit ended 2023 at -2.3% of GDP, 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 January income sources rose by +0.4pp, an increase that surpassed the rise in expenditures, which hiked by a more timid +0.2pp relative to December, after hiking by +1.1pp in the previous month, now tightening the fiscal deficit relative to Dec-23. NFPS income totaled 25.3pp of GDP in January (+0.4pp vs. December). The variation in the segment was mostly explained by a +0.5pp rise in tax revenues, which was partially offset by a -0.1pp drop in Financial Transfers. The rest of the segments remained flat relative to their Dec-23 figures. This slightly shuffled the composition of Income sources. Therefore, Tax revenues came in at 20.3% of GDP, accounting for 80.3% of Total Income, slightly higher than December's figures.

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Outlays totaled 27.4pp of GDP in January, rising by +0.2pp relative to December. The increase in expenditure was mainly driven by the Consumption of Goods and Services segment. Current outlays clocked in at 23.1pp of GDP, hiking by +0.2pp relative to December. In turn, inside the segment, the growth came on the back of a lone increase in Consumption of Goods and Services, which rose by +0.2pp. The rest of the lines remained plateaued relative to Dec-23. After a sizable increase in Capex expenditure in December, which saw it balloon by nearly +28.6%mom (+1pp of GDP), the segment lost significant momentum, with figures flatlining in January, showcasing no further growth. The segment now stands at 4.3pp of GDP, with gross investment accounting for 3.9pp of GDP. With primary NFPS Income increasing by +0.4pp and primary NFPS expenditures increasing by +0.2pp of GDP, the primary surplus strengthened relative to December. In this context, the balance continues to stand at a healthy +1.8% 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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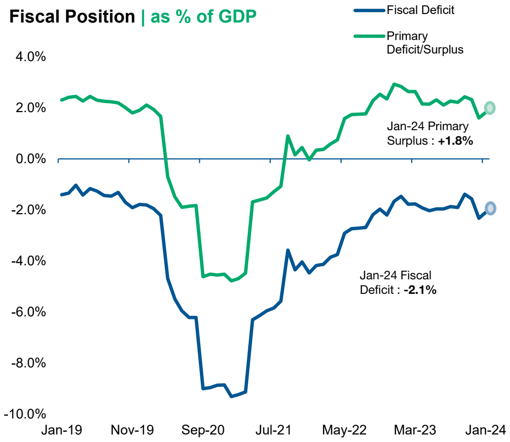
Even if December's fiscal slippage did cause a significant dent in the primary balance, the administration seems to be starting to dial back expenditure, returning to a more hawkish policy bias. Up until December, the administration showcased conservative management of public finances, maintaining a wide primary surplus, responding to both the administration's character and the lack of funding sources faced by the Salvadoran Government. However, with the elections on its front door, the administration decided to put the pedal to the metal regarding fiscal stimuli, increasing capex by nearly 1pp of GDP during December. Even if we did not believe such slippage to be necessary, as the administration enjoyed sky-high popularity ratings due to security improvements, it seems to have bore some fruit, as Mr. Bukele was reelected with 84.7% of the vote, and secured 54 seats out of 60 (90%) in the legislative assembly, maintaining undisputed policy continuity until at least the next legislative elections, which will take place three years from now, in 2027. It seems the administration did not want to take any chances, with both the fates of the executive and legislative lying in the balance. Having secured a massive victory in arguably one of the key moments in Salvadoran politics in recent memory, January's fiscal figures suggest the administration is back to its conservative management of public finances. Having restrained fiscal stimuli the month prior to the election suggests either that the administration continues to be cash-strapped, or that it is willing to consolidate the fiscal balance going forward. While the increase in expenditure was substantial, accounting for more than 1pp of GDP, the fiscal position continues to be adequate. All in all, we expect the effect of the election cycle to be seasonal, as we believe the administration's track record suggests it should remain committed to fiscal consolidation going forward, especially as long as its popularity metrics stem from security improvements. In addition, we expect Dec-24 figures to show a significant improvement relative to Nov-24's, as the 1pp in discretional capex expenditure will drop out of the 12m rolling fiscal figures.

Figure 1: January's fiscal figures



12m accumulated | % of GDP	dec-21	dec-22	dec-23	jan-24
Total Income	**24.1%**	**24.3%**	**24.9%**	**25.3%**
Current Income	24.1%	24.2%	24.8%	25.2%
Tax Revenues	19.6%	19.7%	19.8%	20.3%
Social System Contributions	2.2%	2.2%	2.2%	2.2%
Rest	2.3%	2.3%	2.8%	2.8%
Total Mandatory Outlays	**28.6%**	**25.9%**	**27.2%**	**27.4%**
Current Outlays	25.3%	23.3%	22.9%	23.1%
Consumption	15.6%	14.6%	15.3%	15.4%
Interest Payments	4.4%	4.6%	3.9%	3.9%
Current Transfers	5.3%	4.1%	3.7%	3.7%
Capital Expenditure	3.3%	2.7%	4.3%	4.3%
Net Loan Granting	0.0%	0.0%	0.0%	0.0%
Primary Balance	**0.0%**	**2.9%**	**1.6%**	**1.8%**
Pensions and Trusts	-1.0%	-1.0%	0.0%	0.0%
Net lending/borrowing	**-4.5%**	**-1.7%**	**-2.3%**	**-2.1%**

Source: TPCG Research based on BCR

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
Santiago Resico	Economist	sresico@tpcgco.com	+54 11 4898-6615
Camila Sanchez Lauria	Research Analyst	csanchezlauria@tpcgco.com	+54 11 6616-9512

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
Santiago Jauregui	Sales	sjauregui@tpcgco.com	+598 9933-9495
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 Alperín	DCM	nalperin@tpcgco.com	+54 11 4898-6604
Wealth Management			
Josefina Guerrero	Private Wealth Management Specialist	jguerrero@tpcgco.com	+54 9 11 6556 2401

Asset Management

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

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