El Salvador adopts Bitcoin as a legal currency along with the US dollar. This makes it the first sovereign nation in the world to do so. El Salvador President Nayib Bukele announced his plans to introduce the legislation, during a video call at the Bitcoin 2021 conference in Miami. He said the country is partnering with digital wallet company, Strike, to build modern financial infrastructure using bitcoin technology.

“What’s transformative here is that bitcoin is both the greatest reserve asset ever created and a superior monetary network. Holding bitcoin provides a way to protect developing economies from potential shocks of fiat currency inflation,” said Jack Mallers, founder of Strike, in a statement. He views what El Salvador is doing as “shot heard ‘round the world for bitcoin”, and will help unleash bitcoin’s potential.

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Under the legislation, Bitcoin will become legal tender within 90 days of the approval by Congress. The law means every business must accept Bitcoin as legal tender for goods or services. The only exception would be if the business is unable to provide the technology needed to process the transaction. But this isn’t El Salvador's first move toward bitcoin. After Strive launched its mobile payments app in the country, it quickly became the top app.

The Importance of Remittences

El Salvador has an interesting economy because it is largely cash-based, with 70% of people not having credit cards or bank accounts. On top of that, more than 20% of the nation’s gross domestic product (GDP) comes from remittences, or money sent home from migrants living abroad. Incumbent services can charge 10% or more in fees for
those international transfers. This can take days to arrive and may require physical pick up.

President Bukele said that the move would make it easier for Salvadoreans living abroad to send money home. Not to mention, more than two million Salvadorans live outside the country. They continue to keep close ties with their place of birth, sending back more than $4 billion each year.

No one country has the full faith and backing of bitcoin, as it is not backed by any assets. Part of bitcoin’s value is due to the fact that it is digitally scare; there will only ever be 21 million bitcoin in existence.

The World Bank

The World Bank will not help El Salvador with the implementation of this plan. They cited environmental and transparency issues as to why they made this decision. This could hurt El Salvador’s ability to hit its deadline to ensure that Bitcoin is accepted nationwide in the next three months.

The decision comes after El Salvador’s Finance Minister Alejandro Zelaya said that the country had asked the World Bank for technical assistance with the implementation. According to Zelaya, discussions with the International Monetary Fund (IMF) have been successful. However, the IMF contradicted his statements and said that there would be legal and financial issues to using bitcoin as a currency.

Cryptocurrency Around the World

Other than El Salvador, the Philippines, a developing nation, also deals a lot with cryptocurrency. “Although the Philippines has not adopted bitcoin as a legal tender, the reality is, that payments with cryptocurrencies are commonplace in the country,” Dr. Merav Ozair, FinTech Faculty member at Rutgers Business School, told The Buttonwood Tree. “Legalizing it, is simply making it ‘official’ to some extent.”

Similarly to Salvadorans, over 70 percent of Filipinos don’t have bank accounts; they rely heavily on remittences to provide for their families; and even before the COVID-19 pandemic, one in five Filipinos were living under the poverty line working cash in hand jobs just to get by.

“Furthermore, Japan has legalized Bitcoin and other cryptocurrencies as payment since 2016. It may not be considered as ‘legal tender,’ in the sense of accepted as payment of debt. But you can buy any product or service with cryptocurrencies in Japan,” she said.
Global Implications

Since this trend hasn’t happened in developed countries, she doesn’t see crypto as a “threat” to the global economy. “If this move happened in the U.S. or the EU region then I would consider implications on the global economy. But this is not the case with a country like El Salvador,” she said. “I do not see it as a true competitor to Central Bank Digital Currency (CBDC). Many countries are working on such projects, including the U.S., and China is probably the first to launch one – the digital Yuan. If CBDCs are launched and adopted, then most likely CBDCs and different digital assets will be used concurrently.”

She also doesn’t see many countries following El Salvador’s lead of legalizing bitcoin as a currency. “I do not expect developed countries to follow. If we see other countries following the footsteps of El-Salvador, then I would expect that to be in developing countries, with similar economic and social environment to El-Salvador environment,” she said.

She also disagrees with the World Bank’s decision to not help El Salvador for environmental and transparency reasons. But it’s not a “bad omen” either, in her view. “Let time takes its course and see how things evolve. This is a fast-moving, ever-changing space. A lot can happen in the months to come,” she said.

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