

Bitcoin on its way to becoming legal tender



On September 7, 2021, the Central American nation of El Salvador adopted Bitcoin as its official currency. Since 2001, the national currency has been the US dollar. Is this the beginning of the rise of Bitcoins as a recognized means of payment or just a footnote in the history of monetary policy? What does this step mean for the 6.5 million inhabitants of this country? The rationale given for the introduction of Bitcoin by President Bukele, who was formerly the general importer of Yamaha in El Salvador, is, among other things, to reduce the cost of remittances for Salvadorans living abroad. These, after all, account for nearly a quarter of GDP. Bitcoin enthusiasts hope other developing and emerging countries will follow suit. Low transaction costs and access to digital means of payment for people who cannot afford an account or cannot get one are cited by supporters.

That is the end of the list of positive factors. Because the experiment clearly shows the challenges that Bitcoin and other cryptocurrencies cause as a means of payment: you need an app that works, a population that understands what they are getting into and, above all, how do you deal with volatility? Assuming you pay \$1,000 in taxes in Bitcoin this year, next year that amount might buy you a hacienda on the Pacific Ocean - or just more of a pupusa, El Salvador's national dish, on the next street corner. When paying taxes becomes a casino, it's even less fun. It's also less fun for the government, which, if taxes are indeed paid in Bitcoin, will still have to meet its expenses with U.S. dollars, exposing it to this volatility as well.

Few El Salvadorans also understand how Bitcoin works. According to surveys, only 5% are comfortable with the digital asset and the majority were against its introduction. Merchants are intrinsically forced to accept the digital currency. Some refuse, while others, after receiving a payment in Bitcoin, would immediately convert it into US dollars. The app Chivo, a digital wallet now available to all citizens, includes \$30 in Bitcoin for anyone who downloads it. Significantly, the app failed to work within hours of its launch. Presumably it didn't matter to the majority of El Salvadorans, but bitcoin plummeted significantly from over \$44,000 to under \$39,600 on September 7.

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