

In world first, bitcoin becomes legal tender in El Salvador

September 7 2021, by Carlos Mario Marquez and Moises Avila



Many Salvadorans opposed the introduction of bitcoin as legal tender.

El Salvador on Tuesday became the first country to embrace bitcoin as legal tender, with consumer demand crashing its brand-new cyber "wallet" system even as the currency's value seesawed against the US

dollar.

Under the initiative of President Nayib Bukele, Salvadoran consumers can now legally use bitcoin—along with the US dollar which has been the official currency for two decades—to pay for any good or service.

Bitcoin can be bought and spent using a cyber wallet app called Chivo (which translates as "cool" in the local dialect), while cash can be drawn, in dollars, from some 200 bitcoin automated teller machines hastily erected countrywide.

While made possible by a law promulgated in June, in practice few people could make use of the new system on launch day.

Several who had gathered at a Chivo bitcoin ATM in central San Salvador to conduct transactions had to leave disappointed as the app was down.

A few meters away, at a fruit and vegetable market, trade continued as usual with clients and vendors exchanging dollars.

"Bitcoin? No," one vendor cut a customer short.

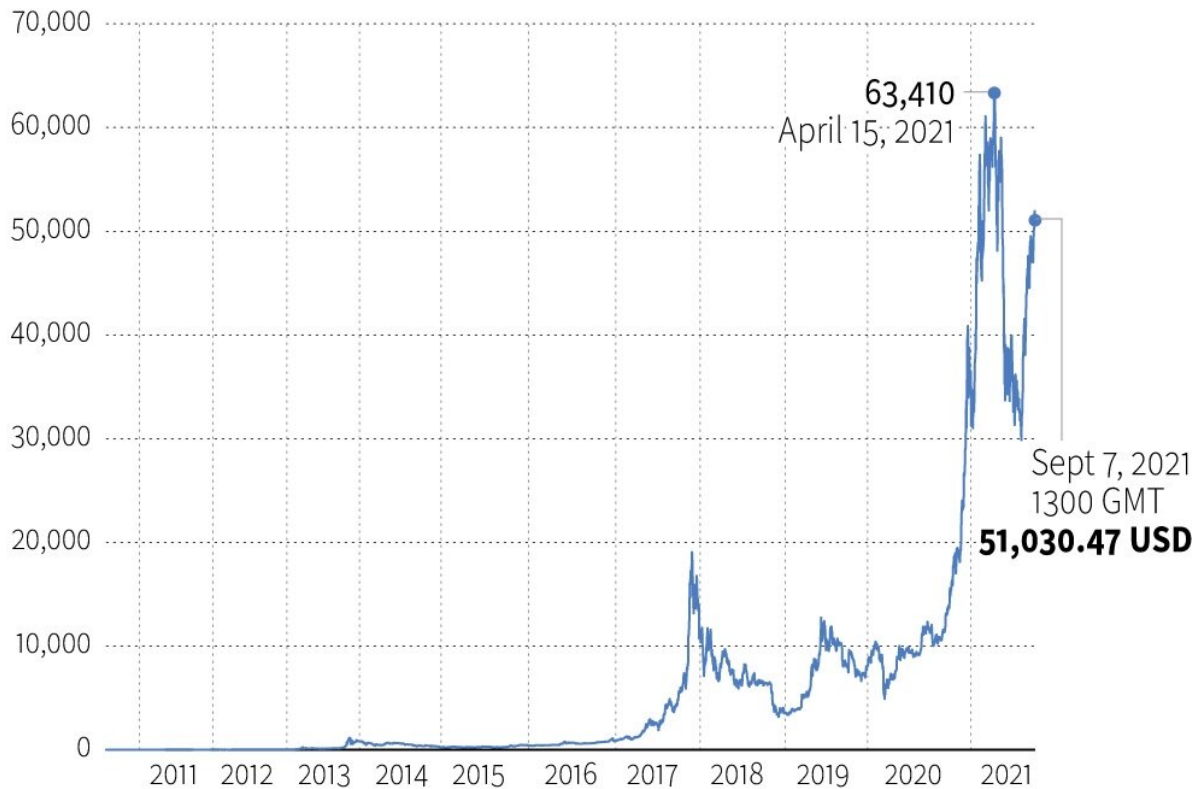
On social media, bitcoin enthusiasts bragged about paying for burgers or pizzas at fast food restaurants, though not using the government app but other third-party platforms already in existence.

"We have disconnected it (the Chivo system) while we boost the capacity of the image capture servers," Bukele tweeted in the morning, urging "a bit of patience" from those keen to join the experiment.

The system was back up a few hours later, though only for users of certain types of cellphones.

Bitcoin

In US dollars



Source: Bloomberg, prices at 00:00 GMT except September 7, 2021



Chart showing the value of bitcoin since 2011, after it briefly jumped above \$50,000 (Sept 7, 1300 GMT) as El Salvador became the first country to accept the virtual unit as legal tender.

'Don't want that bitcoin'

Bukele, a social media-savvy millennial who likes to wear a baseball cap backwards, claims the introduction of bitcoin will give many

Salvadorans access to bank services for the first time and save some \$400 million in fees on remittances sent home from abroad every year.

The president has promised \$30 for each citizen who adopts the cryptocurrency.

But the rollout has been met by much skepticism and fear over the effect of currency volatility on the small Central American country's ailing economy, while many have warned of the lack of protection for users.

Hundreds of Salvadorans have taken to the streets in protest.

"We don't want that bitcoin," scoffed Rosa Martha Perez, a 68-year-old skeptic from El Salvador's countryside who marched in the capital on Tuesday with a few dozen others.

"Someone in the field selling fruit, how will they be able to operate this money?"

The government has said nobody will be compelled to use the digital currency, and the Chivo app will allow on-the-spot conversion of bitcoin to dollars in cases where merchants prefer to receive online payment in traditional money.

The dollar will remain the currency of reference for product prices, salaries and accounting records.



Special ATMs allow people to make bitcoin transactions and draw cash in dollars. This client is wearing a mask resembling President Nayib Bukele.

The government got the ball rolling, buying its first 400 bitcoins Monday, followed by another 150 on Tuesday, for a total value of \$26 million.

On the market, the currency unexpectedly plunged against the dollar in European and US trading, falling below \$43,000 before rebounding to around \$47,000.

At its all-time high in April, one bitcoin was worth more than \$63,000, a number slashed in half by June.

"It's this volatility that has made many in El Salvador less than optimistic about the currency's adoption," said Susannah Streeter, a markets analyst with Hargreaves Lansdown.

"It is a huge gamble for the country's payment system given that making transactions in the currency when the future price is so uncertain is risky."

Changing lives

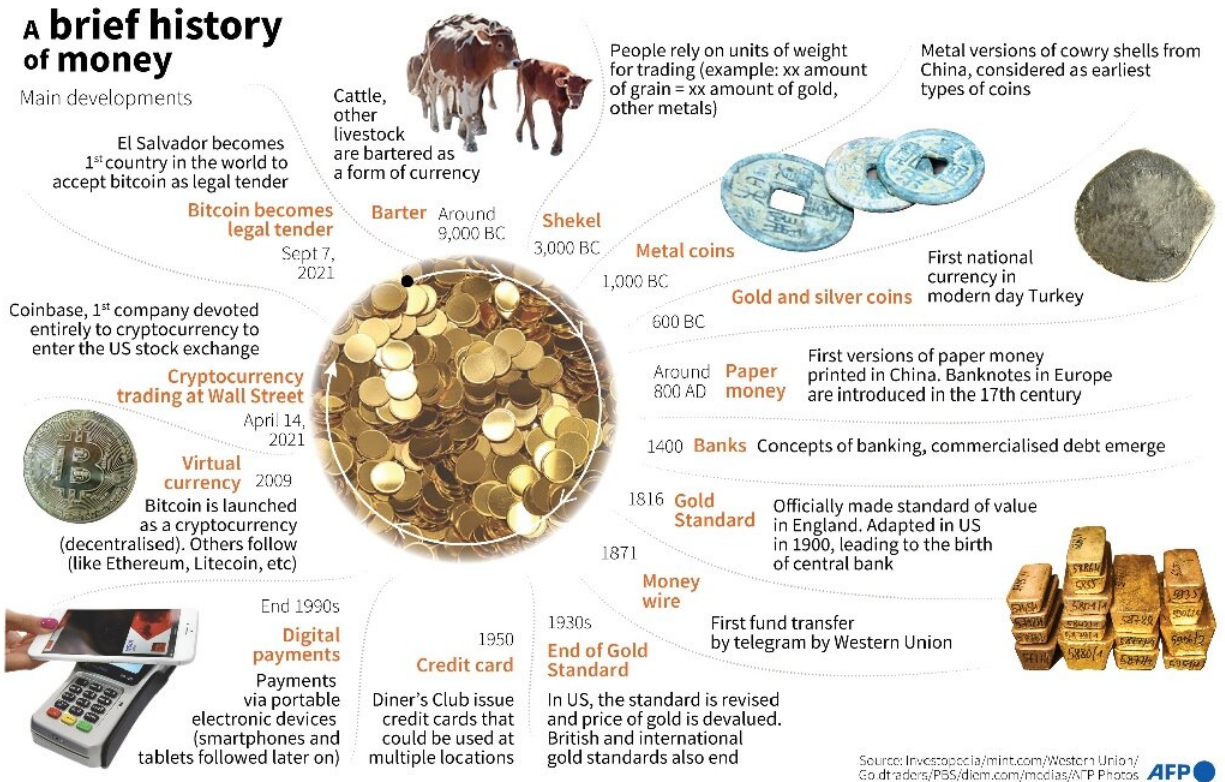
Recent opinion polls suggested a majority of the nation's 6.6 million people would reject the currency and continue to use the greenback.

Bukele's government, which has enjoyed majority backing in parliament since March, has budgeted some \$200 million for his bitcoin plan, guaranteeing the currency's convertibility to dollars.

It hopes the move will boost remittances, which account for a fifth of El Salvador's GDP—over \$5.9 billion in 2020.

A brief history of money

Main developments



Source: Investopedia/mint.com/Western Union/Go traders/PSS/diem.com/mccolas/NFP Photos **AFP**

Graphic showing main developments in the history of money.

The payments are vital to revive an economy that contracted 7.9 percent in 2020 due in large part to the coronavirus pandemic.

Thousands of Salvadorans were already using bitcoin before Tuesday.

Many are in the coastal town of El Zonte, where some who previously did not even have a bank account now use the cryptocurrency for everything from paying utilities bills to buying a can of soda, thanks to a project started by an anonymous bitcoin donor.

"They are now able to do online payments, they are able to send money back and forth with family members even hundreds of miles away," said

Mike Petersen, director of the El Zonte Bitcoin Beach project.

"We are seeing for the first time people accumulating wealth, accumulating savings," he said.

"They can buy a new roof for their house, buy a cow, send their kids to school, and these are opportunities they didn't have before."

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