

Bitcoin in El Salvador: How will it work?

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El Salvador's digital bitcoin wallet is called "Chivo"

El Salvador on Tuesday became the first country to use bitcoin as legal tender, alongside the US dollar. But how will it work?

A few pointers to President Nayib Bukele's currency experiment:

What is cryptocurrency?

Cryptocurrencies are digital currencies that can be used to pay for goods and services.

The first was bitcoin, created in 2009, which uses so-called blockchain technology to secure and record each transaction.

Cryptocurrencies, of which there are thousands currently, are not regulated by any [central bank](#), and the price—often volatile—is determined by market factors.

Bitcoin started off valued at cents to the dollar, and is now trading at around \$46,000—down from an all-time high of more than \$63,000 in April.

How does El Salvador's 'Chivo' digital wallet work?

Bitcoins are loaded onto digital wallets and accessed via a [mobile app](#). In El Salvador, the wallet is called "Chivo," which translates as "cool" in the local dialect.

To download the Chivo wallet, one needs a Salvadoran ID document.

Users can configure Chivo to make payments either in bitcoin or their dollar equivalent.

To draw or deposit cash (in dollars), the government has erected 200 Chivo automatic teller machines countrywide.

To pay for goods and services, both the buyer and seller must have the electronic app.

Is it obligatory to use bitcoin in El Salvador?

Under a law pushed by Bukele and passed within 24 hours by his parliamentary majority in June, "any economic agent must accept bitcoin as a form of payment when it is offered by the person who acquires a good or service."

But if a vendor prefers to receive dollars as online payment, the Chivo user can make an on-the-spot conversion when paying via the app.

Consumers will not be under any obligation to switch to bitcoin, although those who do will receive a one-off incentive equivalent to \$30 in their wallet from the government.

What can it be used for?

The holder of a Chivo wallet can use it to pay for services, to buy and sell products, and to make transfers to bank accounts without paying commission fees, among other benefits.

According to the law, any good or service previously payable in dollars can now also be paid in bitcoin.

How is El Salvador financing it?

The government has budgeted \$203 million in [public money](#) to bolster its bitcoin plan, which it says will give more people access to banking services and shave millions off commission fees for crucial remittances sent home from abroad.

Of this amount, \$150 million is to guarantee the "convertibility" of bitcoin into dollars, and \$23.3 million for financing the rollout. Another \$30 million was set aside for the \$30 bonus for new users.

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

Do Salvadorans support it?

An opinion poll by the Central American University found that more than 80 percent of respondents were wary of the new currency, and 70 percent were opposed to making it legal tender.

Nearly two-thirds said they had no interest in downloading the Chivo wallet.

The government has not released figures on uptake.

Before Tuesday's official launch, some 50,000 Salvadorans were using bitcoin, according to Bukele in June.

Many of them live in the coastal town of El Zonte, where hundreds of businesses and individuals use the currency thanks to a project by an anonymous bitcoin donor to help people who previously had hardly any bank access.

They now use bitcoin for everything, from paying utility bills to buying a can of soda, and until recently, El Zonte boasted El Salvador's only bitcoin teller machine.

What are the risks ?

Experts and regulators have highlighted concerns about the cryptocurrency's notorious volatility, its potential impact on price inflation in a country with

high poverty and unemployment, and the lack of protection for users.

The World Bank rejected a request from El Salvador for assistance in its bid to adopt [bitcoin](#) as a currency, citing "environmental and transparency shortcomings."

Bitcoin and other cyber currencies are "mined" by solving complicated puzzles using powerful computers that consume enormous amounts of electricity—much of which is produced by coal plants.

Bitcoin is also criticized by regulators for its potential for illegal use—notably in laundering money from criminal activities and financing terrorism.

The IMF has also flagged concerns, saying El Salvador's move "raises a number of macroeconomic, financial and legal issues that require careful analysis."

"Crypto assets can pose significant risks, and effective regulatory measures are very important when dealing with them," spokesman Gerry Rice said in June.

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