



# Bukele goes crypto

by Andrew Thompson

**Canning House** Associate Fellow

## What happened?

On 9 June El Salvador became the first country in the world to make Bitcoin, a crypto-currency, legal tender, after 62 of the 84 members of the legislative assembly voted the change into law.

## The details

Nayib Bukele, El Salvador’s millennial-style president, likes to move quickly. On Saturday (5 June) he tweeted that he wanted to make Bitcoin legal tender, to operate alongside the US dollar (El Salvador has a fully dollarised economy). The move, he claimed, would offer El Salvador “the most secure, efficient and globally integrated open payments network in the world”. On Monday (9 June) the legislative assembly, where Bukele holds an overwhelming majority, passed the law. Bitcoin will become legal tender 90 days from now. Job done?

BTCUSD Crypto Chart



In fact, not everyone thinks this is a brilliant idea. There is a case for, and a case against. The case for is quite powerful. El Salvador has a population of 6.4mn, with an additional 2mn living in the United States. Remittances sent home by those in the US account for about one-fifth of GDP. Sending the money through Bitcoin would be friction-free and reduce commissions. There are also plans to reach 70% of the Salvadoran population that doesn't

currently have a bank account and works in the informal economy. “This will improve the lives and future of millions” Bukele has said, stressing the “moral imperative” of financial inclusion. Strike, a mobile payments app that launched in the country in March, says it will be working with the government to make Bitcoin technology available locally.

The case against is also strong. Bitcoin is a highly speculative currency whose value has rocketed by a factor of six over the last two years. The bubble may burst (again) causing losses for those using the currency. The blockchain open-ledger software it uses required energy-intensive “Bitcoin mining” frowned on by environmentalists. While blockchain offers a secure decentralised currency trading system, it can also be used for bad things. Carlos de Sousa of Vontibel Asset Management told Reuters “Cryptocurrencies are overall a very easy way to avoid taxation and a very easy way to simply avoid the authorities...you can do money laundering, you can do tax avoidance, and so on.”

El Salvador is one of the most indebted countries in Central America and the Bitcoin launch could complicate current talks on a US\$1bn-plus rescue package from the IMF. Another asset manager, Siobhan Morden of Amherst Pierpoint Securities worries that about a “lack of coordination with impulsive announcements that contradict a cohesive economic plan”.

## What does it mean?

Interest in digital currencies is growing in Latin America but their early track record is mixed. At one extreme Venezuela announced the Petro, its own digital currency in 2018, but three years on it shows very little sign of life. Other countries like Barbados and Brazil are working on what are called central bank digital currencies (CBDCs) which are more centrally controlled. Whether Bitcoin is right for El Salvador remains to be seen.

### About the Author

## Andrew Thompson

La Rambla Research Ltd.

As well as being a Canning House Associate Fellow, Andrew is a former foreign correspondent (Buenos Aires, Mexico City, Rio de Janeiro) and a broadcaster for the BBC’s Latin American Service. Working through La Rambla Research Ltd., he writes about economics, political risk, and business in Latin America.



**These stories are also available on Andrew’s blog site, [La Rambla Research](#).**