

Bitcoin becomes legal tender in El Salvador

Article

The news: El Salvador became the first country in the world to make Bitcoin legal tender on Tuesday, which means businesses will be forced to accept it as payment.

Why Bitcoin? The country is seeking a quick solution to improve its financial system.

- Roughly 70% of the population in El Salvador lacks access to traditional financial services. But you don't need a bank account to use cryptocurrencies—they can be stored via alternative digital channels like mobile wallets, promoting financial inclusion.

- Nearly one-quarter of El Salvador's economy is based on remittances, and transferring funds via the Bitcoin blockchain could reduce cross-border transaction fees and speed up transfers, per an Insider Intelligence report.

Our take on why it won't pan out this way: Using Bitcoin as legal tender will not effectively improve access to financial services in El Salvador.

- Its high volatility doesn't make it ideal for payments. Users are more commonly encouraged to retain Bitcoin in the hope that it accrues value rather than spend it.
- And 75% of Salvadorans have reservations about their country's decision to adopt Bitcoin, with pensioners in particular fearing the use of Bitcoin in their payouts due to its volatility.
- Perhaps most damning is that **about two-thirds of the population does not have access to the internet**, and some regions even lack electricity, making Bitcoin utterly impractical.
- Finally, financial institutions are concerned Bitcoin could be used to pass illicit proceeds through the El Salvador financial system, making it more challenging to comply with anti-money laundering requirements.

The bigger picture: We don't expect Bitcoin to take off as legal tender anywhere else. Other governments will focus on using central bank digital currencies (CBDCs) to improve their financial systems with blockchain technology.

Eighty-one countries representing more than 90% of global GDP are exploring CBDCs, with emerging economies leading the race: The Bahamas and Cambodia are already at the implementation phase, highlighting that they see such digital currencies as a more viable route to financial inclusion than Bitcoin.