

# EL SALVADOR MAKES BITCOIN LEGAL TENDER

Benjamin Dean – Director, Digital Assets  
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On 7 September 2021 El Salvador became the first nation state to make Bitcoin legal tender. The experiment about to play out is interesting from a few angles. This article considers the development through the concept of the technology adoption curve. It also considers what it is about El Salvador that has led it to be the first nation state to adopt Bitcoin as legal tender. Answers to these questions can serve as a basis for making predictions about which other nation states are most likely to follow suit...

El Salvador is a country of approximately 6 million people located in Central America. Its economic and political history is unfortunately characterised by the instability that is common amongst other nations in the region. In 2001 El Salvador 'dollarised', thereby abandoning the Colon, and subsequently using the US Dollar as its legal tender. Now El Salvador has 'bitcoinised' – bitcoins must be accepted if offered for repayment of debts – a move that was championed by incumbent President Nayib Bukele.

Why has President Bukele taken such an unorthodox economic policy move?

The World Bank estimates that around 20% of El Salvador's gross domestic product (GDP) comes from the 1.5 million Salvadoreans that send remittances from the United States of America<sup>1</sup>. This diaspora has previously paid heavy fees to use legacy money transfer services such as Western Union. Now, via the Chivo, Strike or other mobile wallets, powered by Bitcoin Lightning, the fees paid on Bitcoin remittances will be fractions of a US cent. People will notice an extra 5-10% in their pockets – and how much time they save receiving instant transactions directly to their phones.

**Top 5 countries with the highest proportion of remittances as a % of GDP, 2020**

Country	% of GDP from remittances
Tonga*	37.2
Somalia	35.3
Kyrgyz Republic	28.4
Tajikistan	26.7
El Salvador	24.1

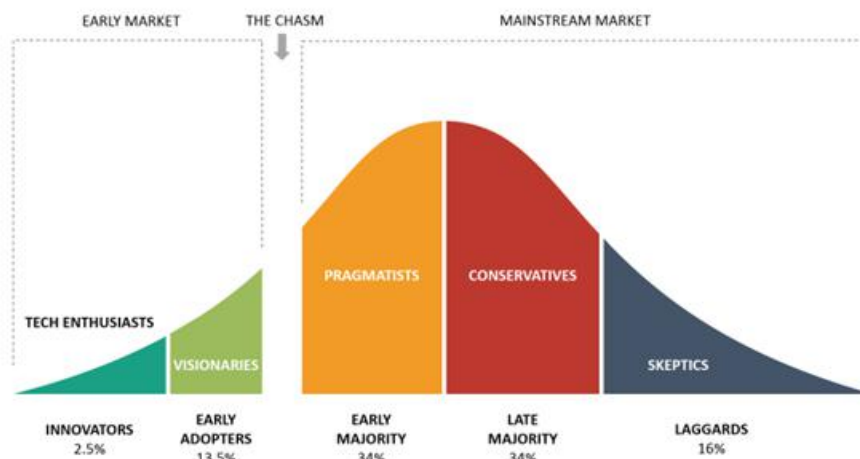
Note: \* Data from 2019

Source: World Bank staff estimates based on IMF balance of payments data, and World Bank and OECD GDP estimates.

Moreover, around 70% of Salvadoreans did not have bank accounts in 2017<sup>2</sup>. Yet El Salvador is home to more cell phones than people. In fact, with 151 cell phone subscriptions per person<sup>3</sup> Salvadoreans have more cell phones per 100 people than Japan (125), USA (129) and

the UK (118). (Side note: in many countries people have multiple cell phone SIM cards to juggle preferential on/off rate deals). With Bitcoin, these cell phones potentially put a bank in everyone's pocket.

### Where is El Salvador on the technology adoption curve?



Source: <https://www.business-to-you.com/crossing-the-chasm-technology-adoption-life-cycle/>

This move by El Salvador is an indication of where along the technology adoption curve Bitcoin now finds itself in one country in the world. In a survey conducted just prior to bitcoin officially becoming legal tender it was found<sup>4</sup>:

“At least 67.9% of 1,281 people surveyed said they disagree or strongly disagree with the use of bitcoin as a legal tender, said the poll by UCA, a Jesuit university based in El Salvador. Just over 32% of people said they agree on some level.”

This is normal. El Salvador is still mainly a paper economy where goods and services are paid for in cash (US dollars). Bitcoin will sit alongside the USD, which is likely to continue to be the main way some people pay over coming years. If 30% of people already agree with Bitcoin as legal tender, assuming some margin for error due to non-random sampling, that means the urban part of the country is already likely well into the Early Adopter phase.

A more important dimension to consider is what happens when the 30% of fast adopters show their friends and relatives how Bitcoin works, and how much money they save in fees. Expect this proportion of the population to grow- the question is how steep the adoption curve will end up being?

Consider also what happens when other countries, particularly in this region, but also globally, watch if the sky does not fall in El Salvador post-bitcoinisation. The maximum supply of bitcoin is 21 million. Combine that with increased demand for bitcoins due to adoption in other countries with high remittances as a percentage of GDP, a recent history of macroeconomic instability, and a population with widespread cell phones possession.

### Sources

- <sup>1</sup> <https://www.reuters.com/business/finance/exclusive-el-salvador-bitcoin-transfers-soar-still-fraction-dollar-remittances-2021-06-14/>
- <sup>2</sup> <https://data.worldbank.org/indicator/FX.OWN.TOTL.ZS?locations=SV>
- <sup>3</sup> <https://data.worldbank.org/indicator/IT.CEL.SETS.P2?contextual=default&end=2018&locations=SV&start=1996>
- <sup>4</sup> <https://www.reuters.com/technology/majority-salvadorans-do-not-want-bitcoin-poll-shows-2021-09-02/>

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