

Landmark moment for digital currency

Tomorrow El Salvador will adopt Bitcoin as its national currency, together with the US dollar, becoming the first country in the world to do so.



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Nigel Green, chief executive and founder of deVere Group, a financial advisory, asset management and fintech organisation, believes other nations will soon follow suit.

“El Salvador is making history with a bold jump into the future of money – which is, inevitably, digital – by officially recognising Bitcoin as legal tender together with the dollar,” comments Green.

Currently, outside of the US and its territories, there are seven other sovereign nations that use the dollar.

“Other countries, in particular other Central and South American nations, will be watching with great interest to see if the experiment works to shore up El Salvador’s shaky economy,” he says.

There’s no doubt that there are major risks attached to the decision made by the young maverick president, Nayib Bukele.

“These include the possibility that El Salvador could run out of dollars, and that institutions, such as the International Monetary Fund (IMF), might not look favourably on a nation that has adopted Bitcoin,” he says.

While the risks prompted some El Salvadorans last week to take to the streets to protest the adoption of Bitcoin as an official currency, Green is cautiously optimistic about the move for five key reasons.

Often a costly problem

“El Salvador chose to be reliant upon a major ‘first-world’ currency, the dollar, to complete transactions. But this reliance on another country’s currency also comes with its own set of, often very costly, problems.

“The El Salvadoran government cannot print its own money and the economy cannot benefit from the US Federal Reserve’s money-printing agenda. Therefore, El Salvador must either borrow or earn the dollars it needs.

“A stronger dollar can have a crippling impact on emerging-market economies, such as that of El Salvador,” he explains.

“By adopting a cryptocurrency as legal tender these countries then immediately have a currency that isn’t influenced by market conditions within their own economy, nor directly from just one other country’s economy.

“Bitcoin operates on a global scale and is, as such, largely impacted by wider, global economic changes,” he adds.

More purchasing power

“Central banks around the world have been devaluing their currencies, while Bitcoin’s supply is not only limited, but also new coins are mined at a decreasing rate too. El Salvadorans could, therefore, find their new adopted currency gives them more purchasing power when they buy from overseas,” Green says.

Cut the cost of remittances

El Salvador’s adoption of Bitcoin could cut the cost of remittances, a major source of income for millions of people. The remittances would be made faster and easier too, compared to money transfer services or bank wires, so remittances are likely to further increase.

Growing the size of reserves

By diversifying the nation’s dollar reserves into the cryptocurrency, there could be additional opportunities to earn yield, meaning the size of the reserves would grow.

Capital inflows

El Salvador could benefit from significant foreign investment and capital inflows as digital asset organisations are likely to relocate to the Bitcoin-friendly nation.

Clearly, if the adoption proves to be a success it will be a massive step for Bitcoin’s mass adoption as other countries will follow El Salvador’s lead.

“Due to their similar reliance on remittances, amongst other factors, other nations, including Panama, Guatemala and Honduras, could also adopt Bitcoin should the process in El Salvador run smoothly and there’s greater economic growth, stability, and levels of financial inclusion as a result,” explains Green.

Greens says this is truly a landmark moment in the evolution of digital currency. “We’re giving a measured welcome to the move that could make a hugely positive impact on this Central American nation and its population.

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