



Valkyrie

# The Bitcoin Effect

Part II: LatAm Bitcoin Adoption

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On June 9th, a supermajority of the El Salvadoran legislature voted to adopt bitcoin as legal tender. On the back of El Salvador's groundbreaking decision, other Latin American countries may follow suit, proposing legislation to adopt bitcoin. This series examines "The Bitcoin Effect" in three parts: the past, present and future.

## **Part I: Learning from History**

*Explores the creation of the European Union as a framework for understanding the current economic policy surrounding bitcoin adoption in Latin America.*

## **Part II: LatAm Bitcoin Adoption**

*Focuses on El Salvador's decision to adopt bitcoin as legal tender in addition to legislation in surrounding Latin American countries.*

## **Part III: The Digital Future**

*Discusses how a global adoption of digital currency could play out.*



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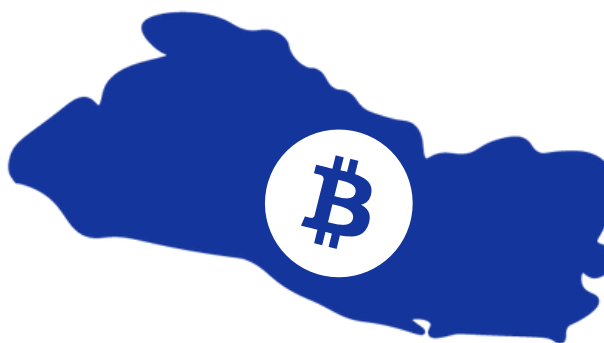
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### Part II: LatAm Bitcoin Adoption

*LatAm Bitcoin Adoption focuses on El Salvador's decision to adopt bitcoin as legal tender in addition to legislation in surrounding Latin American countries.*

#### El Salvador

On Wednesday, June 9th, El Salvador solidified its place in crypto history, adopting bitcoin as a national currency. President Nayib Bukele cited opportunities of financial inclusion, national independence and even geothermal mining in the bill, which passed with a supermajority of the El Salvadoran legislature's consent. The "bitcoin law" went into effect on September 7th, 2021.<sup>1</sup>



#### The Case for Bitcoin

While the U.S. Dollar was officially adopted as the primary El Salvadoran currency in 2001 to reduce currency risk and encourage international trade, it has led to a reliance on the US for monetary policy and created an economy with little upward mobility for its residents.

In a country where remittances account for 20.39% of GDP, there is a clear need for a monetary system that would reduce or even eradicate service fees, in addition to time delays.<sup>2</sup>

Combine these high fees and delays with the fact that only approximately 30% of the population have bank account access and you have a massive portion of the country with a dire need for money, yet facing economic and physical barriers to access it.<sup>3</sup>

<sup>1</sup> De, Nihilsh. "It's Official: El Salvador's Legislature Votes to Adopt Bitcoin as Legal Tender." CoinDesk, CoinDesk, 9 June 2021, [www.coindesk.com/markets/2021/06/09/its-official-el-salvadors-legislature-votes-to-adopt-bitcoin-as-legal-tender](https://www.coindesk.com/markets/2021/06/09/its-official-el-salvadors-legislature-votes-to-adopt-bitcoin-as-legal-tender).

<sup>2</sup> "Remittances, Percent of Gdp by Country, around the World." TheGlobalEconomy.com, December 2020, [www.theglobaleconomy.com/rankings/remittances\\_percent\\_gdp/](https://www.theglobaleconomy.com/rankings/remittances_percent_gdp/).

<sup>3</sup> Yakubowski, Max. "What is really behind El Salvador's 'Bitcoin Law'? Experts answer." CoinTelegraph, CoinTelegraph, 2 July 2021, <https://cointelegraph.com/explained/what-is-really-behind-el-salvadors-bitcoin-law-experts-answer>.



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### Enter bitcoin.

No transfer fees, no delays and no bank account necessary. Thus inviting 70% of the country, formerly unbanked, into the economy.



Fast



Cheap



Accessible

### The Bitcoin Blueprint

As the first nation to formally adopt bitcoin as legal tender, El Salvador is in a position to create a blueprint for other nations. The country partnered with Jake Maller backed Lightning Network payments platform Strike which enabled El Salvador to set up 'El Chivo' wallet for citizens to transact in bitcoin for free. Here's how it will work.<sup>4</sup>



Every citizen of El Salvador will receive \$30 in bitcoin (BTC) when they activate their Chivo digital wallet.



Initially, 200 Chivo ATMs and 50 in person kiosks are set up for citizens to withdraw cash.<sup>5</sup>



The app intends to provide the ability to easily transfer between USD and BTC for no fee.



Neither the sender nor the receiver should pay any fees for transacting through Chivo.



Every merchant must accept BTC through the app but as a merchant you can receive the transaction in USD.



The government approved 150 million Bitcoin trust to facilitate transfers between BTC and USD.<sup>6</sup>

<sup>4</sup> Wilser, Jeff. "The Lightning Network Is Going to Change How You Think About Bitcoin." CoinDesk, CoinDesk, 24 Aug. 2021. [www.coindesk.com/tech/2021/07/12/the-lightning-network-is-going-to-change-how-you-think-about-bitcoin](https://www.coindesk.com/tech/2021/07/12/the-lightning-network-is-going-to-change-how-you-think-about-bitcoin).

<sup>5</sup> McShane, Alex. "President of El Salvador: Bitcoin Law Will Be Supported by 200 ATMs and 50 Branches." Bitcoin Magazine, Bitcoin Magazine, 23 Aug. 2021, <https://bitcoinmagazine.com/culture/president-of-el-salvador-bitcoin-law-will-be-supported-by-200-atms-and-50-branches>.

<sup>6</sup> McShane, Alex. "El Salvador's Democratic Assembly Approves \$150 Million Bitcoin Trust." Nasdaq, Nasdaq, 31 Aug. 2021, <https://www.nasdaq.com/articles/el-salvadors-democratic-assembly-approves-%24150-million-bitcoin-trust-2021-08-31>.



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### IMF Pushback

The International Monetary Fund (IMF) released commentary on July 26, 2021 that expressed concerns over the adoption of bitcoin as legal tender. With pushback mounting, some El Salvadorans took to the streets to protest.<sup>7</sup> The Salvadoran Association of International Cargo Carriers has even threatened to charge an additional 20% to freight customers paying in bitcoin in an attempt to protect against the concern over the coin's volatility.<sup>8</sup>

Let's dig deeper into the stated risks of bitcoin adoption by the IMF:

1

#### Volatility:

*The IMF expresses concern over the stability of bitcoin as a currency due to its volatility. If we examine the volatility of bitcoin, it trends to the upside as opposed to the downside like many currencies due to inflation. I would anticipate mainstream adoption will level out this volatility.*

2

#### Central Banks intend to issue Digital Currencies:

*IMF notes that central banks plan to issue digital currencies as a more stable digital alternative to bitcoin. Examining the current central bank policies of printing money during recessionary periods, we are seeing unprecedented levels of inflation. The inflation rate from a CPI perspective is over 5% but may be higher based on the rising price of lumber, copper, housing, gasoline and food. The fixed supply of bitcoin makes it deflationary in nature and I would argue a more stable long term currency option.*

3

#### Black Market Bitcoin:

*Speculators often cite concerns over money laundering as an anti-bitcoin argument. A bag of cash can be handed over with no ability to be traced. Alternatively, as we saw in the recovery of bitcoin following the Atlantic pipeline hacking, cryptocurrency is much easier to track. Because every transaction is stored in a permanent fixed ledger due to blockchain technology, it is in many ways more secure.<sup>9</sup>*

4

#### Macroeconomic stability:

*The IMF expressed concerns over macroeconomic stability with bitcoin adoption. Unfortunately, this overlooks the need to increase financial inclusion globally. Emerging market nations should have the ability to explore means of innovation and technology to empower citizens as well as the nation as a whole.*

<sup>7</sup> Adrian, Tobias; Weeks-Brown, Rhoda. "Cryptoassets as National Currency? A Step Too Far." IMFBlog, IMFBlog, 26 July 2021, <https://blogs.imf.org/2021/07/26/cryptoassets-as-national-currency-a-step-too-far>.

<sup>8</sup> Pattnaik, Bibhu. "As Bitcoin Law Kicks Off In Less Than A Week, Anti-Bitcoin Protests Break Out In El Salvador." Yahoo Finance, Yahoo Finance, 30 Aug. 2021, <https://finance.yahoo.com/news/bitcoin-law-kicks-off-less-003838896.html>.

<sup>9</sup> Perroth, N., Griffith, E., Benner, K. "Pipeline investigation upends idea that bitcoin is untraceable." The New York Times, 9 June 2021, <https://www.nytimes.com/2021/06/09/technology/bitcoin-untraceable-pipeline-ransomware.html>.



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### Latin American Adoption

With El Salvador as the first experiment, other countries in the region are exploring formal adoption.



<sup>10</sup> Chipolina, Scott. "Government of Cuba Says It Will Recognize, Regulate Cryptocurrencies." Decrypt, Decrypt, 27 Aug. 2021, <https://decrypt.co/79567/government-cuba-says-will-recognize-regulate-cryptocurrencies>.

<sup>11</sup> Conway, L. "Panama to Join El Salvador and Paraguay in Bitcoin Adoption?" The Street Crypto: Bitcoin and cryptocurrency news, advice, analysis and more, 7 June 2021 <https://www.thestreet.com/crypto/bitcoin/panama-may-join-el-salvador-and-paraguay-in-bitcoin-adoption>.

<sup>12</sup> "2021 Global Crypto Adoption Index." Chainalysis, 18 Aug. 2021, <https://blog.chainalysis.com/reports/2021-global-crypto-adoption-index>.

<sup>13</sup> Stankovic, Stefan. "Uruguay, Colombia Add to Latin American Crypto Adoption." Crypto Briefing, Crypto Briefing, 5 Aug. 2021, <https://cryptobriefing.com/uruguay-colombia-add-latin-american-crypto-adoption>.

<sup>14</sup> Quarmby, Brian. "Uruguayan Senator Introduces Bill to Enable Use of Crypto for Payments." CoinTelegraph, CoinTelegraph, 5 Aug. 2021, <https://cointelegraph.com/news/uruguay-senator-introduces-bill-to-enable-use-of-crypto-for-payments>.



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### The Road to Regional Adoption

All eyes are on El Salvador as an example of the benefits of increased adoption. Looking back on the Eurozone example from Part One, Latin America has similar opportunities for trade, open borders, and a shared currency. While the Eurozone has a GDP focused on manufacturing and tourism, LatAm's GDP is spearheaded by commodities and tourism.

With regional bitcoin adoption, Latin America could benefit from a landscape rich in natural resources and a shared workforce, strengthened by an already common language of Spanish—something the Eurozone lacked.

With the benefits of union known, the next few months will be telling for the future. I believe we will likely see the adoption of bitcoin first in smaller economies that are hardest hit by the impact of inflation like El Salvador. The next phase may include medium-sized economies like Thailand that have recently dealt with currency crises like the Thai Baht Crisis in 1997.<sup>15</sup> Adoption is already high in many of these mid-sized economies.<sup>16</sup>

In part III of this series we will dive into the future outlook for global bitcoin adoption.

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<sup>15</sup>Team, The Investopedia. "Asian Financial Crisis Definition." Investopedia, Investopedia, 26 Aug. 2021, [www.investopedia.com/terms/a/asian-financial-crisis.asp](http://www.investopedia.com/terms/a/asian-financial-crisis.asp).

<sup>16</sup>Best, Raynor de. "Cryptocurrency Adoption by Country 2020." Statista, 22 July 2021, [www.statista.com/statistics/1202468/global-cryptocurrency-ownership/](http://www.statista.com/statistics/1202468/global-cryptocurrency-ownership/).



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### About the Author



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#### Steven McClurg, Chief Investment Officer at Valkyrie

Steven McClurg is the Chief Investment Officer of Valkyrie Investments. He has considerable traditional finance and Fintech experience, ranging from insurtech and payments to blockchain.

Previously, Mr. McClurg was a Managing Director at Guggenheim Partners, where he was a portfolio manager and responsible for portfolio construction and strategy for fixed income and private equity. Most recently, Mr. McClurg founded Theseus Capital, a blockchain-powered asset management platform which was acquired by a merchant bank, Galaxy Digital, where he continued as Managing Director, building their asset management and public funds businesses. He also co-founded payments company, Paydrop.


He also has experience in leadership roles in technology companies such as Electronic Arts and Crowdfunder. Mr. McClurg holds a Master of Science and an MBA from Pepperdine University, where he has served as an adjunct professor.

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