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## FEATURED Q&A

# Is Embracing Bitcoin the Right Move for El Salvador's Economy?



Salvadoran President Nayib Bukele has said cryptocurrency will "generate jobs and help provide financial inclusion to thousands outside the formal economy." // File Photo: Salvadoran Government.

**Q** El Salvador's ruling party-controlled Legislative Assembly on June 8 passed a measure proposed by President Nayib Bukele to designate Bitcoin a legal tender, making the Central American nation the first in the world to do so. What are Bukele's goals in making Bitcoin one of El Salvador's official currencies, and what are the major benefits and drawbacks? What implications does the move have on remittance flows, anti-money laundering efforts and the U.S. dollar, which is El Salvador's main currency? What potential consequences could formalizing the cryptocurrency have on the country's program with the International Monetary Fund? What does the measure mean for businesses operating in El Salvador?

**A** Julia Yansura, program manager for Latin America and the Caribbean at Global Financial Integrity: "El Salvador's GDP contracted nearly 9 percent in 2020 during the Covid-19 crisis, and full recovery is not expected until 2023. Meanwhile, external debt is rising. In this difficult economic context, the country is trying to find solutions. President Bukele has said Bitcoin will promote financial inclusion, facilitate remittances and attract investment to the country. Some of these make more sense than others. It's unlikely that Bitcoin, which is complex and volatile, will be a financial inclusion pathway for average Salvadorans who find existing options with banking, community credit unions or mobile money too complicated or costly. Moreover, for migrants sending remittances, Bitcoin is too complicated to be attractive. I do think the move will attract investment to El Salvador, but not without significant risks. While El Salvador's security situation has improved

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## TODAY'S NEWS

### POLITICAL

## Nicaraguan Agents Arrest Another Opposition Figure

Nicaraguan police have arrested another opposition figure, Víctor Hugo Tinoco, bringing to 13 the number of opposition members arrested in Nicaragua since the beginning of June. The broad crackdown comes ahead of Nicaragua's presidential election in November.

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### ECONOMIC

## Brazil Eying Power Rationing Amid Drought

Brazil's government is reportedly preparing a temporary decree that could lead to electricity rationing amid a severe drought.

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### POLITICAL

## Pinzón Tapped as Colombia's Envoy to U.S.

Colombian President Iván Duque tapped Juan Carlos Pinzón as the country's ambassador to the United States. Pinzón previously occupied that post from 2015 to 2017.

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Pinzón // File Photo: White House.

## POLITICAL NEWS

## Nicaraguan Police Arrest Another Opposition Politician

Police in Nicaragua have arrested another opposition politician, bringing to 13 the number of opposition members detained since the beginning of June in an expanding crackdown on foes of President Daniel Ortega, the Associated Press reported Monday. In the latest arrest, 10 agents in plainclothes and wearing hoods seized Víctor Hugo Tinoco, the leader of political movement Unamos and a former Nicaraguan foreign minister and ambassador to the United Nations, the wire service reported. Tinoco was detained late Sunday at a shopping mall. Tinoco's arrest brought to six the number of opposition members detained over the weekend. Another Unamos party leader, Suyen Barahona, was seized earlier on Sunday. Unamos activist Tamara Dávila was also arrested over the weekend, as were ex-Sandinista dissidents Dora María Téllez and Hugo Torres and another opposition member, Ana Margarita Vijil. Former Sandinistas who have criticized Ortega for nepotism and autocratic ways as well as continual re-elections formed Unamos. Nicaraguan police said they arrested the opposition members on charges related to a law that the ruling-party dominated National Assembly passed in December that gives Ortega's government the power to unilaterally declare citizens "terrorists" and "traitors to the homeland" and prohibit them from running as candidates, the AP reported. The law also allows for punishing people "who lead or finance a coup ... encourage foreign interference, ask for military intervention ... propose or plan economic blockades, applaud and champion the imposition of sanctions against Nicaragua or its citizens." The crackdown comes ahead of Nicaragua's presidential election, which is scheduled for Nov. 7. Ortega, who has been in office since 2007, is seeking to extend his rule. In a statement Monday, Nicaragua's government characterized the arrests as legitimate. "The only thing that this group of opposition

usurpers share in common is their allegiance to the government of the United States of America and the fact that they have directly or through their respective NGOs, received millions of dollars in U.S. taxpayer money through USAID, NED, IRI and other agencies, aimed at overthrowing the elected government of President Comandante Daniel Ortega Saavedra," Nicaragua's government said in a statement. The U.S. government has criticized the crackdown. "The United States condemns this ongoing campaign of terror in the most unequivocal terms and considers President Ortega, Vice President Murillo, and those complicit in these actions responsible" for the safety of those arrested, a State Department spokesperson told The Wall Street Journal.

## Authorities in Costa Rica Make Arrests in Large Graft Probe

Costa Rican authorities on Monday carried out dozens of searches and arrests in connection with a massive public corruption investigation related to the awarding of road construction and maintenance contracts, the Associated Press reported. The probe is one of the most impactful public corruption investigations in the country, according to the director of the Judicial Investigation Organization, Walter Espinoza. The case allegedly involves a series of bribes, from cars to properties, cash and personal favors, by a group of private firms to public officials in exchange for securing government contracts, Espinoza said, the AP reported. He added that the scheme caused a \$127 million deficit in the budget for road works from 2018 to 2020, Reuters reported. Authorities executed 57 searches, 14 of them of public institutions, including the offices of the president. Eighteen officials and 11 businessmen were arrested, and Espinoza said dozens more were under investigation. One of the judicial orders was for the arrest of one of President Carlos Alvarado's closest advisors, Camilo Saldarriaga, who resigned from his post on Monday, Reuters reported. Saldarriaga, 29, advised the president on infrastructure

## NEWS BRIEFS

## Colombia's Duque Taps Pinzón as Ambassador to U.S.

Colombian President Iván Duque on Monday tapped Juan Carlos Pinzón, a former defense minister, to be the country's new ambassador to the United States, the Associated Press reported. Pinzón, 49, is expected to take over the embassy in August. He had previously held the post between 2015 and 2017, when Colombia's government signed a peace deal with the Revolutionary Armed Forces of Colombia, or FARC. Pinzón later became a critic of the peace agreement, saying its terms were too lenient on the top commanders of the former rebel group, the AP reported.

## CABEI Head Expresses Support for El Salvador's Adoption of Bitcoin

Dante Mossi, the head of the Central American Bank for Economic Integration, or CABEI, on Monday said the bank will provide technical assistance to El Salvador for it to implement Bitcoin as legal tender, even though it still issues debt only in U.S. dollars, Reuters reported. El Salvador last week passed a law to formalize Bitcoin as the country's currency alongside the dollar, the first country in the world to do so. Mossi said the measure would give Salvadorans many opportunities, including reducing the costs of remittances.

## Brazil's GPA Considering Spinoff of Colombia's Almacenes Éxito: Report

Brazil-based food retailer GPA is considering a spinoff of its Almacenes Éxito unit in Colombia, of which it owns nearly 97 percent, Reuters reported Monday, citing two unnamed sources with knowledge of the matter. GPA shareholders include parent company Casino Guichard Perrachon.

matters. He is under investigation for allegedly participating in the scheme in exchange for money, cars and sexual services. Saldarriaga has denied wrongdoing and said he was resigning to focus on his defense. "I feel enormous indignation, frustration and anger at the acts of corruption in the public works contracts," Alvarado said on Monday in an appearance on Facebook Live. "This type of behavior is absolutely unacceptable," he added.

## ECONOMIC NEWS

# Brazil Reportedly Eyes Power Rationing Amid Severe Drought

Brazil's government is preparing a temporary decree that could bring electricity rationing as the country grapples with its worst drought in almost a century, Reuters reported Monday, citing a draft of the measure. The decree, which would need to be approved by Congress, would create a commission that could decide on more drastic measures to control the use of electricity if there are shortages that could hurt the country's economic recovery. President Jair Bolsonaro has not approved the decree but was set to meet with cabinet ministers on Monday to discuss it, according to the report. The Mines and Energy Ministry said in a statement that the government and state agencies are working "incessantly" to guarantee energy security and avoid any rationing of power this year in what the ministry called "a critical juncture." The South American nation's worst drought in at least two decades has left water reservoirs that supply energy operating well below typical output and forcing the country's electricity generators to turn to more expensive thermal production, which has driven up costs, Folha de S.Paulo reported last month. However, "shortage of energy is unlikely to happen in the near future, but higher prices are expected," Renato C. Zambon, professor at the University of São Paulo, told the Energy Advisor in a [Q&A](#) published May 28.

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somewhat, the country remains vulnerable to organized crime and drug trafficking. El Salvador will need to be extremely careful to avoid the wrong types of investment. Attracting international tech entrepreneurs is one thing; attracting international money launderers or tax evaders is another. If things go wrong, the Bitcoin experiment could be very costly to the country's security as well as its image, causing other investors, businesses and financial institutions to perceive heightened AML/CFT risks, particularly at the Bitcoin-to-dollar conversion point. As the country updates its regulatory framework in preparation for Bitcoin, it would do well to evaluate its overall AML/CFT system and address existing weaknesses in light of the big changes that lie ahead."

**A Helen Harris, senior research associate at McLarty Associates:** "By designating Bitcoin as legal tender in El Salvador, President Bukele seeks to increase financial penetration, while eliminating transaction fees on remittances—which account for 20-25 percent of GDP. President Bukele also argues that it would foster investment and boost employment, primarily if El Salvador becomes a hub for Bitcoin mining, a strategy that raises skepticism and is criticized by environmentalists. While the country is moving forward with the implementation of a bimonthly system with the cryptocurrency and the U.S. dollar, the enforcement of this design is not clear. The government has declared it will guarantee Bitcoin convertibility to the U.S. dollar, but given Bitcoin's volatility, there are doubts whether El Salvador has the necessary funds. There are additional consequences to the adoption of a decentralized cryptocurrency, such as the negative impact it may have on the country's anti-money laundering efforts. Should El Salvador become a haven for money laundering, it will most likely see its \$1 billion negotiation with the IMF become compromised. In addition to fiscal concerns, there are also implications

for multinational firms doing business in El Salvador. Should headquarters consider Bitcoin a foreign currency, or should it remain regulated as a commodity? How will international tax treaties and financial regulations address cryptocurrencies once they become legal tender? These are all issues that regulators will now have to consider, as Salvadorans assess whether they want to embrace Bitcoin as their currency or merely use it with the final goal of exchanging for U.S. dollars."

**A Tim Jacklich, senior analyst at Americas Market Intelligence:** "President Bukele presents the recognition of Bitcoin as legal tender in El Salvador as a groundbreaking step for financial development and inclusion. Upon a closer look, this policy is a risky gambit, likely offering some benefits but also exposing the Salvadoran economy to substantial risks. There is some merit to Bukele's proposal that Bitcoin transfers replace traditional remittances. Bitcoin transfers can indeed be faster and cheaper than legacy methods, owing to the reduced need for financial intermediaries. However, congestion on the Bitcoin blockchain can boost transaction fees, blunting Bitcoin's cost advantage during peak network usage. Bukele is less convincing in his argument that Bitcoin-related investment would represent an economic boon for El Salvador. New bitcoin inflows would likely behave like short-term, procyclical 'hot money,' attracted by the favorable tax regime but with limited economic development benefits. As for the risks, El Salvador's 'Bitcoinization' could be painful. The Bitcoin Law requires most Salvadoran merchants to accept Bitcoin as a form of payment, presumably when the law takes effect 90 days after its passage. If enforced, this provision would compel merchants to make costly investments in Bitcoin wallets and processing technology, even as a near-term surge in consumer-side Bitcoin uptake seems unlikely. Bukele's endorse-

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ment of Bitcoin might also give Salvadorans misplaced confidence in the cryptocurrency as a savings vehicle. Especially after Bitcoin's price collapse this spring, the U.S. dollars remains much more reliable. With El Salvador's per capita GDP unlikely to return to pre-pandemic levels until 2024, Salvadorans should exercise caution regarding risky crypto bets."

**A**lvaro Trigueros, director of the department of economic studies, and Marjorie de Trigueros, director of the department of legal studies, both at Fusades: "The government and the Legislative Assembly approved Bitcoin as legal tender in a matter of hours, with no previous discussion, consultation or a prior study of regulatory impact, costs, benefits and risks. The government wants publicity and sees this as a means for promoting financial inclusion and attracting foreign direct investment, in order to leapfrog into modernization. However, it is not a magic wand. Bitcoin will introduce a level of complexity to a country where the U.S. dollar has been legal tender since 2001. Not everyone will want to hold Bitcoin, as prices are expressed in dollars, and for daily cash transactions, many vulnerable households don't have smart phones or access to the Internet. Transfers of remittances in Bitcoin could be made almost at

zero cost, if the sender and receiver use the same application, but there will be fees if people need to trade from Bitcoin to dollars. If in a commercial transaction a person wants dollars instead of Bitcoin, a special trust has been constituted in the national development bank, which will provide the

“For a government with a debt close to 90 percent of GDP, there will be more uncertainty and volatility...”

– Álvaro Trigueros & Marjorie de Trigueros

service of instant exchange and will absorb any risk at taxpayers' cost. Will the trust have sufficient dollars to support all daily transactions? For a government with a debt close to 90 percent of GDP, there will be more uncertainty and volatility, and the IMF has mentioned that Bitcoin as legal tender requires very careful analysis. It is unknown how the financial system will abide by the guidelines of the Financial Action Task Force (FATF) against global money laundering and terrorist financing."

*The Advisor welcomes comments on its Q&A section. Readers can write editor Gene Kuleta at [gkuleta@thedialogue.org](mailto:gkuleta@thedialogue.org).*

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# Advisor Video

## Peru's Presidential Runoff Election

A Latin America Advisor interview with Cynthia McClintock Professor of Political Science and International Affairs, The George Washington University



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