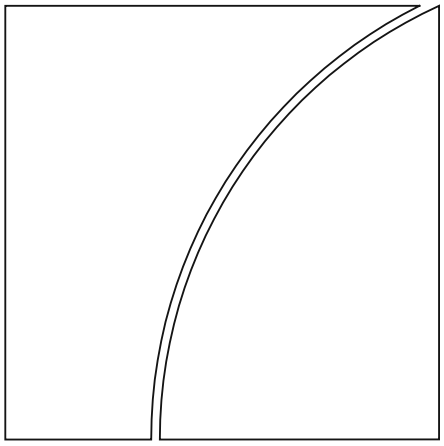

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The impact of stablecoins on the international monetary and financial system

by Iñaki Aldasoro, Jon Frost and Hiro Ito

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The impact of stablecoins on the international monetary and financial system[1]

Iñaki Aldasoro, Jon Frost and Hiro Ito

Abstract

Widespread use of stablecoins could have an important impact on the international monetary and financial system, particularly for emerging market and developing economies (EMDEs). Using the framework of international currency functions to analyse their effect, we argue that stablecoins are most likely to affect private sector store of value and medium of exchange roles, particularly in economies facing macroeconomic instability. Given that approximately 98% of stablecoins' value is dollar-denominated, they are likely to initially reinforce existing currency hierarchies. We develop three scenarios to explore the range of potential outcomes. In niche adoption, impacts remain contained within crypto ecosystems. Digital dollarisation poses acute risks to monetary sovereignty in EMDEs through rapid currency substitution. Domestic stablecoin integration could harness efficiency gains while preserving policy autonomy, but it requires significant regulatory capacity. The ultimate trajectory will depend on adoption patterns, regulatory responses and the interplay with other forms of digital money.

Keywords: stablecoins, foreign exchange, capital flows, dollarisation

JEL classification: E40, F31, F38, G12, G15, G23, O32

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1. Introduction

The international monetary system stands at a critical juncture. For over seven decades, the US dollar has served as the dominant international currency, underpinning trade invoicing, foreign exchange (FX) markets, cross-border banking and official reserve holdings. This dominance has proven remarkably resilient despite periodic predictions of its demise. It is sustained by deep network effects, liquid financial markets and the institutional foundations of US economic power (Eichengreen (2011); Blustein (2025)). Yet the rise of digital finance, and particularly the rapid growth of stablecoins, has introduced new dynamics that could reshape global currency hierarchies in ways both subtle and profound.

Stablecoins are privately issued digital tokens designed to maintain a stable value relative to a reference asset, most commonly a sovereign currency. Since their emergence in 2014, they have evolved from niche instruments serving cryptocurrency traders to a global phenomenon with market capitalisations exceeding $300 billion in 2026 and estimated cross-border transaction volumes surpassing $400 billion as of 2024 (Aldasoro et al (2025a); Auer et al (2025)). While stablecoins remain a small fraction of the broader financial system, their growth trajectory has been striking. The number of active stablecoins nearly quadrupled following the US presidential elections in November 2024, and their market capitalisation has exhibited the characteristic "hockey stick" pattern of exponential adoption. More significantly, approximately 98% of stablecoin value is denominated in US dollars. This suggests that their initial impact may be to reinforce rather than challenge existing currency hierarchies. At present, the vast majority of stablecoin activity remains tied to cryptocurrency trading, with adjusted transaction volumes dominated by non-retail participants (section 2). Yet the trajectory of adoption may matter more than today's baseline.

This paper examines how stablecoins could affect the international role of currencies, with particular emphasis on implications for emerging market and developing economies (EMDEs). We bridge two literatures that have largely evolved in parallel: research on digital currencies and cryptoassets, which has focused primarily on technological architectures, financial stability risks and regulatory frameworks; and scholarship on international currency competition, which has analysed the determinants of reserve currency status, vehicle currency use and the dynamics of currency zones. By bringing these perspectives together, we aim to illuminate how a technological innovation in payment systems could interact with deep-seated economic and political forces that shape the international monetary order.

Our analysis proceeds through several steps. We begin by providing a primer on stablecoins that situates them within the broader landscape of digital money and the evolution of private claims on sovereign currency. Stablecoins have features with historical precedents, including those of 19th century private banknotes, eurodollars in the 1960s and 1970s and modern money market funds (MMFs) (Schenk (1998); McCauley et al (2021); Gorton et al (2022); Gorton and Zhang (2023); Aldasoro et al (2025b, 2023b)). Like these earlier innovations, stablecoins have emerged through a combination of financial innovation and regulatory arbitrage, extending access to dollar-denominated claims beyond traditional banking channels. We also consider how dollarisation through stablecoins compares with traditional forms of currency substitution, arguing that stablecoins lower barriers to entry while introducing new frictions. However, stablecoins' operation on public, permissionless blockchains

introduces distinctive characteristics: [2] pseudonymous peer-to-peer transferability, programmability through smart contracts, and continuous global availability outside conventional banking hours and correspondent networks.

We then employ the canonical framework developed by Cohen (1971) and Kenen (1983) to map the functions of an international currency along two dimensions: the three classical roles of money (unit of account, medium of exchange and store of value) and the two categories of users (private sector actors and official sector authorities). This taxonomy allows us to systematically assess which international currency functions are most vulnerable to disruption by stablecoins. Our analysis suggests that private sector store of value and medium of exchange functions face the most immediate pressure, particularly in EMDEs where stablecoins offer accessible alternatives to domestic currency instruments during periods of macroeconomic instability. Unit of account functions face higher barriers given the entrenched nature of invoicing conventions, while official sector uses are unlikely to be directly affected in the near term, though they could be indirectly constrained if widespread private adoption enables "stealth dollarisation" that erodes monetary policy autonomy.

The evidence we gather supports the view that stablecoins are already facilitating a form of digital currency substitution in specific contexts. Cross-border stablecoin flows have grown substantially since 2022, with particularly pronounced activity in regions experiencing high inflation and exchange rate volatility (Auer et al (2025); Reuter (2025)). Increases in stablecoin flows are associated with subsequent domestic currency depreciation, deviations from covered interest parity and widening wedges between stablecoin-implied and official exchange rates in segmented markets (Aldasoro et al (2026)). These patterns are consistent with stablecoins enabling circumvention of capital controls and providing a relatively frictionless mechanism for EMDE residents to shift savings into dollar-denominated instruments.

For EMDEs at the macro level, this dynamic presents a double-edged challenge. On one hand, stablecoins could reduce the cost of cross-border payments, enhance financial inclusion for unbanked populations and provide access to stable stores of value for citizens in high-inflation environments. On the other hand, rapid adoption of foreign currency stablecoins risks eroding monetary sovereignty, complicating the enforcement of capital controls and creating new channels for financial instability. When residents can seamlessly convert domestic currency into dollar stablecoins at the first sign of macroeconomic stress, central banks lose policy traction and countries become more vulnerable to sudden stops and currency crises. The concentration of stablecoin reserves in US Treasury bills also creates a direct channel through which global demand for private dollar payment instruments feeds into demand for US sovereign debt, potentially affecting yields and monetary policy transmission (Ahmed and Aldasoro (2025); Kim (2025); Ferrari Minesso and Siena (2026)).

To explore these dynamics, we develop three scenarios for future stablecoin adoption that span from marginal to transformative impacts. In the first scenario, which we term "niche adoption", stablecoins remain primarily instruments for on-chain trading within cryptocurrency ecosystems, with limited penetration into real-economy transactions. Capital flow leakage occurs but remains small relative to overall balance of payments flows, and monetary authorities retain meaningful policy autonomy. The second scenario, "digital dollarisation", envisions rapid adoption of dollar-

[2] Public permissionless blockchains are open networks where anyone can join, read and write transactions without needing approval and the system is secured by decentralised consensus instead of a central authority.

denominated stablecoins as the de facto cross-border payment infrastructure in many EMDEs, with swift spillovers into domestic pricing and settlement. This scenario poses acute risks to monetary sovereignty and financial stability, potentially accelerating trends towards informal dollarisation that have long concerned policymakers. The third scenario, "domestic stablecoin integration" sees multiple EMDEs licensing regulated entities to issue local currency stablecoins that interoperate with national payment systems and potentially retail central bank digital currencies (CBDCs). This path offers the possibility of harnessing efficiency gains while preserving policy autonomy but requires regulatory capacity and coordination that may be beyond the reach of many jurisdictions. And if domestic currency stablecoins are widely adopted but operational issues arise, there could be new systemic risks.

These scenarios are neither mutually exclusive across countries nor exhaustive of all possibilities. Rather, they serve as analytical frameworks for understanding how different adoption patterns would affect currency hierarchies, monetary sovereignty and financial stability. The actual trajectory will reflect complex interactions among technological possibilities, economic incentives, regulatory choices and the distribution of power across countries and between public and private actors. We nonetheless sketch some cross-cutting considerations around policy and regulation. One notable issue is that many jurisdictions are developing regulatory frameworks for crypto and stablecoins to influence the sector, but a lot of activity is taking place outside of the regulatory perimeter. Addressing risks will require substantial cross-border cooperation.

The rest of the paper is structured as follows. Section 2 presents a primer on stablecoins, their evolution, architecture, backing assets and use cases. Section 3 then looks at stablecoins through the canonical framework of Cohen (1971) and Kenen (1983) to understand the functions of an international currency. This sets the stage for section 4, where we discuss the scenarios and their implications. Finally, section 5 concludes.

2. A primer on stablecoins

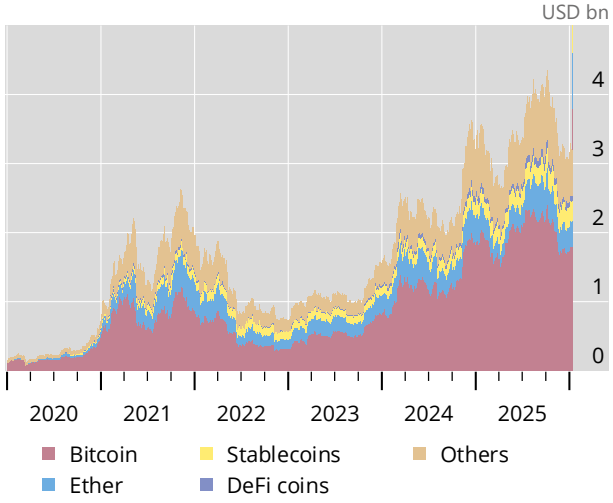
Stablecoins are privately issued digital crypto tokens that seek to maintain a stable value relative to a specified reference asset, most commonly a sovereign currency, or a basket of assets (FSB (2020)). They are recorded and transferred on distributed ledgers, typically public, permissionless blockchains. Unlike cryptoassets such as Bitcoin or Ethereum, which are "no one's liability", stablecoins have a unique issuer – an entity that "mints" and "burns" coins on the blockchain and, for most stablecoins, holds backing assets. Following the first stablecoin, the now-defunct BitUSD, in July 2014, the stablecoin Tether (USDT) was launched in October 2014. MakerDAO issued its Dai stablecoin (DAI) in December 2017, and Circle and Coinbase debuted USD Coin (USDC) in May 2018.

While stablecoins are a small part of the crypto ecosystem in terms of market capitalisation, they have become the principal settlement media within it (Graph 1). Unlike unbacked cryptoassets whose values fluctuate in their own units of account, fiat-referenced stablecoins aim to function as comparatively steady means of payment and stores of value in tokenised environments (Arner et al (2020); BIS (2023b)). Stablecoin turnover dwarfs that of other cryptocurrencies such as Bitcoin or Ether, even

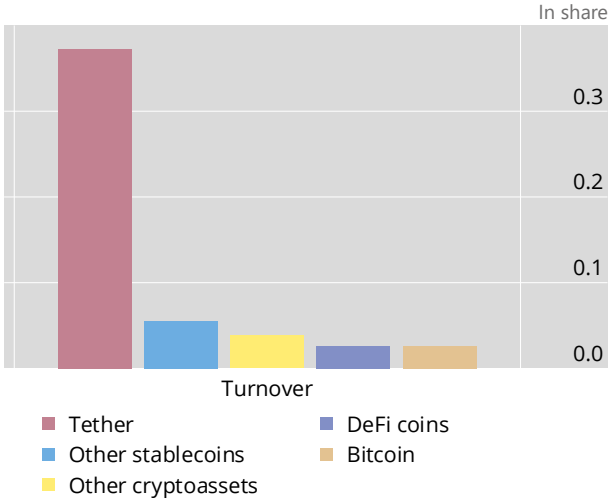
Stablecoin growth is part of broader developments in crypto and DeFi

Graph 1

A. The overall market for crypto and DeFi is growing[1, 2]



B. Stablecoin turnover dwarfs that of other cryptoassets[2]



[1] Daily values. Categories comprise the largest seven stablecoins, 20 DeFi coins and 75 other cryptocurrencies.. [2] "DeFi coins" refers to cryptoassets issued by decentralised finance (DeFi) platforms.

Sources: BIS (2022); Bloomberg; CoinGecko; BIS.

though the latter account for around three quarters of total crypto market capitalisation.[3]

The number and value of active stablecoins has shown accelerating ("hockey stick") growth in the past two years. At the time of writing, there are over 300 active stablecoins with a market capitalisation of over USD 300 billion (Graph 2). The number of active stablecoins grew almost four-fold following the latest US elections in November 2024. The rise in volumes was also similarly punctuated by the US elections but was already underway before. Effectively, the rise in stablecoin market capitalisation is synonymous with the rise of USDT and, to a lesser degree USDC; together, these two stablecoins make up the lion's share of the market.

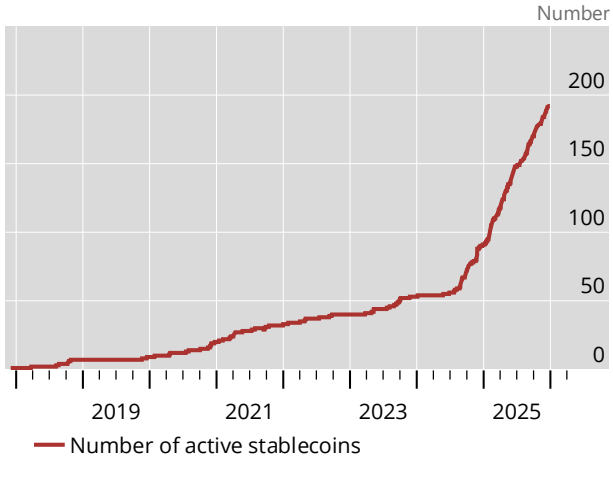
To date, issuance is overwhelmingly linked to the US dollar (Graph 3). In terms of the pure number of stablecoins, those pegged to the US dollar account for around two thirds of the global market. In terms of value, dollar dominance is even more staggering: around 98% of the market is pegged to the dollar. This feature affects international monetary hierarchies as cross-border usage grows; we return to these international dimensions later in the paper.

[3] We use measures of so-called crypto capitalisation given their ubiquity. We note, however, that these measures should be taken with a healthy degree of scepticism. For a broader discussion of this issue, see M White, "Cryptocurrency 'market caps' and notional value", 17 July 2022.

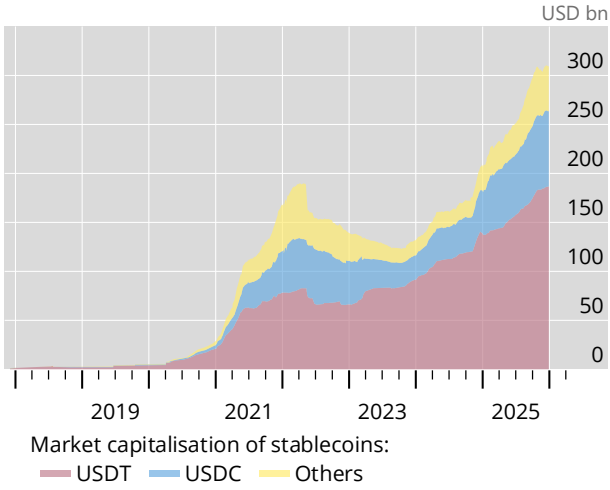
Stablecoins have shown a hockey stick pattern of growth

Graph 2

A. Number of stablecoins is rising fast…[1]



B. …alongside their market capitalisation



[1] Based on data availability and the classification by Kosse et al (2023). Active stablecoins are those with a market capitalisation larger than 0.

Sources: Aldasoro et al (2025a); CoinGecko; authors' calculations.

Architecture and operation of stablecoins. The bulk of mainstream stablecoin arrangements are "fiat-backed": identifiable legal entities issue tokens against receipt of funds and promise redeemability at par into the reference currency, subject to contractual terms.[4] At a general level, three elements underpin any credible stabilisation for stablecoin arrangements. First is a well-defined redemption commitment in off-chain (ie fiat) money.[5] Second is an exchange-traded fund (ETF)-like arrangement that allows tokens to trade close to par in secondary markets (Ma et al (2023)). And third is an asset-backing arrangement that holds high-quality, liquid reserves to meet redemptions. In practice, leading dollar-pegged coins explicitly commit to par redemption (with fees and minimum thresholds in many cases). Transparency varies across issuers, with differences in frequency and scope of reserve disclosures and in the extent of independent assurance (Kosse et al (2023)).

Stabilisation largely relies in practice on off-chain portfolios of short-dated, high-quality liquid assets. Tokens themselves circulate on chain across public blockchains such as Ethereum or Tron. Users access them through digital wallets, which may be provided by intermediaries such as exchanges or wallet companies (hosted) or controlled directly by users (unhosted). Centralised and decentralised exchanges facilitate trading of stablecoins against other cryptoassets and fiat currencies, acting as on- and off-ramps between the crypto ecosystem and traditional finance. Custodians

[4] Algorithmic approaches to stability, which seek to maintain par via programmed supply adjustments or arbitrage with paired tokens rather than through tangible reserves, have repeatedly failed. TerraUSD's "death spiral" in May 2022 highlighted that assumed liquidity in paired tokens can evaporate, and that algorithmic stabilisation without robust backing and governance is fragile (Liu et al (2023); Aldasoro et al (2023b)). International policy discussions and most emerging regulatory frameworks therefore focus on fiat-backed arrangements, with clear expectations around reserve composition, segregation and redemption (FSB (2023); CPMI and IOSCO (2022)).

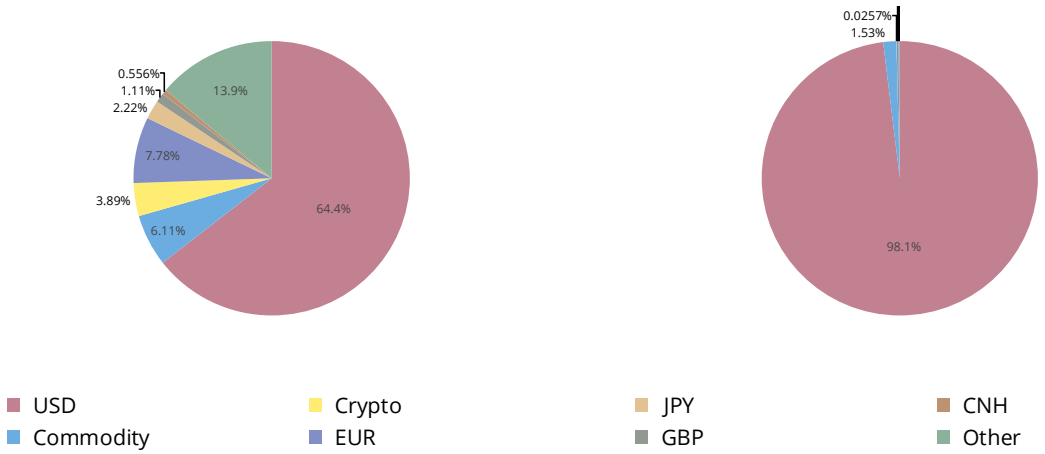
[5] On-chain assets are assets whose ownership and transfer are recorded directly on the blockchain, while off-chain assets exist outside the blockchain and are only referenced or represented on it.

Stablecoins are overwhelmingly denominated in US dollars

Graph 3

A. The US dollar makes up over 64% of stablecoins by number…

B. …and over 98% by market value



Sources: Aldasoro et al (2025a); CoinGecko; Kosse et al (2023); authors' calculations.

safeguard reserve assets, and blockchain validators implement consensus rules to record transfers (BIS (2023b)).

Issuance involves minting tokens when funds are received; redemption involves burning tokens and paying out the reference currency.[6] Where direct redemption is restricted (eg through minimum sizes, registration requirements or fees), secondary market trading on exchanges provides liquidity and price discovery. In normal conditions, arbitrageurs often support the peg by exploiting price dislocations relative to reserve-linked instruments or direct redemption channels with the issuers. The effectiveness of this mechanism depends on transparency, reserve quality and market access (Ma et al (2023)). Peg deviations can arise under stress. In March 2023, USDC traded below par following the failure of Silicon Valley Bank, where a portion of its reserves were deposited (Ahmed et al (2025)); in May 2022, Tether temporarily lost its peg in the wake of the TerraUSD collapse (Aldasoro et al (2023b); BIS (2023b)).

Stablecoins are perhaps best understood as an on-chain private money-like claim (ie promises to pay off-chain money at par) whose viability depends on the liquidity architecture supporting that promise rather than on solvency alone (Aldasoro et al (2023b)). The analogy with eurodollars is instructive: the offshore dollar system supported par between offshore and onshore dollars via credit elasticity in interbank and forward markets and, in extremis, through central bank liquidity backstops via swap lines (Schenk (1998); McCauley et al (2021)).[7] By contrast, crypto-native market-

[6] For the largest stablecoin issuers, minting and redemption are not available to all users, but rather limited to a small set of intermediaries who act as market-makers. Maintaining par-value redemption can depend also on the smooth functioning of Treasury and repo markets, the balance sheet capacity of intermediaries and the smooth functioning of blockchains. See Aronoff et al (2026).

[7] A further analogy is with MMFs. Much like eurodollars and MMFs, stablecoins have emerged out of a combination of financial innovation and regulatory arbitrage: In the case of eurodollars, as market participants sought more flexible dollar intermediation outside domestic constraints; in the case of MMFs, to get around deposit rate caps arising from the Federal Reserve Regulation Q, offering investors access to short-term instruments while aiming to maintain a constant net asset value and daily liquidity. Stablecoins combine elements of both, extending dollar claims beyond traditional

making is comparatively primitive, credit elasticity is deliberately constrained by design, and defence of par relies more heavily on market liquidity and liquidation of reserve assets than on funding liquidity. This asymmetry helps explain why backed coins can exhibit temporary deviations from par under stress, even when their assets are sound, and why algorithmic designs that assume away market liquidity have proven brittle (Aldasoro et al (2023b)). Because tokens circulate globally on public blockchains, the promise of par spans institutional boundaries; pressures can transmit across on-chain and off-chain domains. Where credit elasticity is weak, market liquidity and the ability to sell reserve assets at close to fundamental value become the decisive stabilisers. In a broad-based run, redemptions can require rapid asset sales into short-term markets, with potential price impacts in the underlying instruments and knock-on effects where those markets sit at the core of monetary policy transmission (Adrian et al (2025)).

Such parallels highlight two recurring themes. First, USD-pegged stablecoins may reinforce existing dollar network effects by lowering frictions to accessing dollar claims globally, in ways reminiscent of the eurodollar market's expansion. Second, because stablecoin reserves are concentrated in short-term US public debt, their growth creates a channel through which global demand for private "par dollar" claims maps directly into demand for US safe assets, with implications for yields, spillovers and monetary transmission.

Backing assets: composition, transparency and auditability. Stablecoins' reserve portfolios exhibit some heterogeneity across issuers, with concentration in USD-denominated instruments for the USD-pegged arrangements that dominate the market. Evidence compiled across the largest coins shows that fiat-backed issuers typically hold combinations of reverse repos, publicly issued debt securities and cash or cash equivalents, in differing proportions (Graph 4). For instance, Tether (USDT), which was notorious for its lack of transparency on reserves and was rumoured to hold low-quality private commercial paper, now holds a significant share of its reserves in US Treasury bills. It is also unique among the major players in its continued holding of other cryptocurrencies and other volatile assets. Circle (USDC) holds a mix of Treasury bills and overnight reverse repos, whereas PayPal USD (PYUSD) is mostly doing reverse repos. Some euro-denominated issuers (eg STASIS EURO) indicate full cash backing, while other arrangements report significant cash-equivalent holdings (Kosse et al (2023)). Given that USD-pegged stablecoins hold sizeable quantities of US Treasury bills and related instruments, scaling up would naturally have an influence on short-term dollar markets.

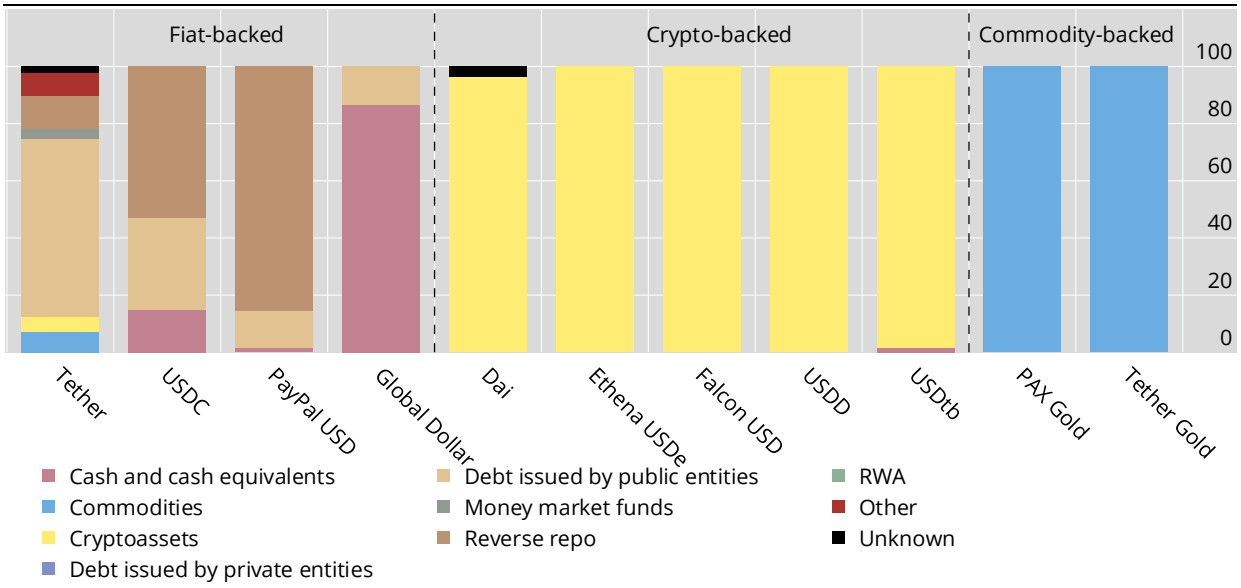
Transparency is uneven. A few issuers publish reserve information frequently – daily for some crypto-backed and fiat-backed arrangements, including USDC. Meanwhile, others disclose much less often (eg quarterly) or on an ad hoc basis. Tether, for instance, has not issued any audited financial statements to date, but simply attestation reports reviewed by BDO Italia. In several cases, disclosures are consolidated across multiple products (eg USD- and EUR-denominated tokens and commodity-linked tokens), complicating attribution. For certain arrangements, portions of reserves are described in terms that are difficult to classify (eg "secured loans"), or information about their composition is not published at all. Moreover, it is often unclear whether disclosures are accompanied by independent audits. The absence of standardised reporting templates and auditable, frequent disclosure

banking perimeters as bearer-like tokens on public blockchains, and embedding redemption protocols backed by portfolios of short-term assets.

Reserve composition differs starkly across stablecoins[1]

In per cent

Graph 4



[1] Tether publishes only a consolidated reserves breakdown covering all its cryptoassets, including USD stablecoin (Tether), its euro stablecoin (Euro Tether) and Tether Gold. In this graph, we show the gold reserves of Tether Gold separately. Stablecoins are placed in descending order by market cap within each category (ie Tether, which has the largest market cap, is shown first, then USDC, etc). RWA = real-world assets.

Sources: Kosse et al (2023); companies' websites.

impedes a confident assessment of reserve quality and sufficiency, and thus of the credibility of par convertibility under stress (Kosse et al (2023)).

Crypto- and commodity-backed stablecoins add further nuances. Crypto-backed arrangements typically rely on over-collateralisation by volatile cryptoassets and on liquidation mechanisms coded in smart contracts, with some using other stablecoins as backing assets.[8] Transparency of reserves and governance varies widely. Commodity-backed tokens (eg those linked to gold) rely on custody and title frameworks for the underlying commodity (Kosse et al (2023)).

Use cases: current and prospective. Stablecoins are chiefly used as settlement media within the crypto ecosystem, where they function as the base leg of trading pairs on centralised and decentralised exchanges and as the principal store of liquidity between speculative positions. Turnover typically exceeds that of major unbacked cryptoassets, consistent with their role in market-making and arbitrage (see Graph 1 above, as well as BIS (2023b)).

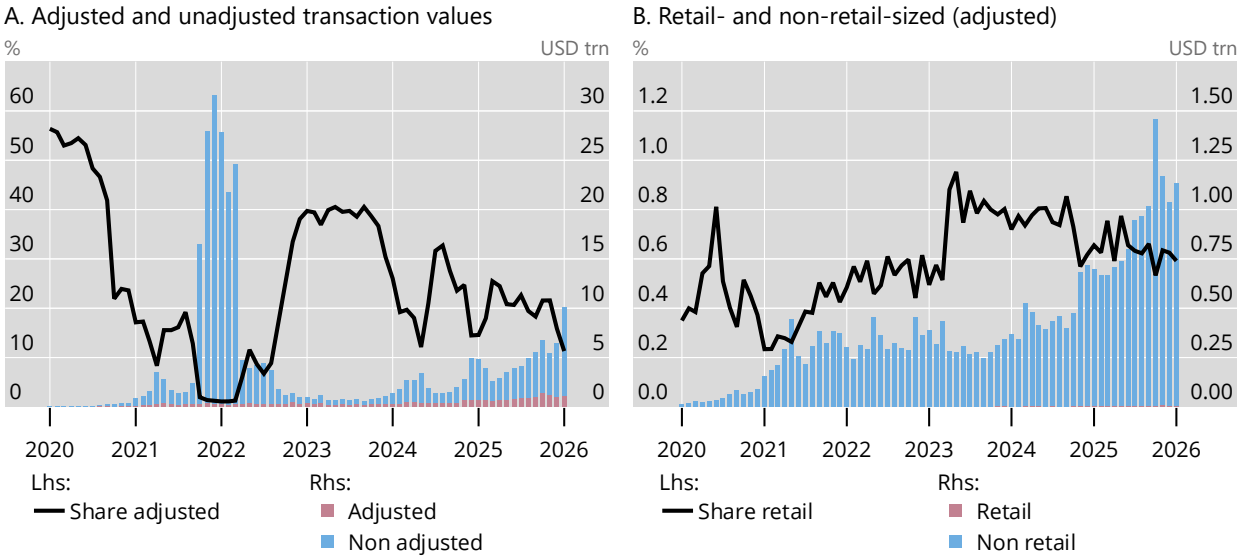
Much of stablecoin turnover is, however, automated activity, including intra-exchange transactions and wash trading.[9] A large share of on-chain activity is automated, with bots executing arbitrage and portfolio rebalancing, and with perpetual futures providing leverage and generating on-chain funding rates that can

[8] Notable cases are DAI and FRAX, which are partly backed by USDC and suddenly lost their peg when USDC itself de-pegged during the Silicon Valley Bank crisis (Ahmed et al (2025)).

[9] On crypto wash trading, see Cong et al (2023).

diverge materially from off-chain money market rates (Adrian et al (2025)).[10] While information is hard to come by, available estimates that attempt to correct for these activities yield an adjusted measure of stablecoin transaction values that is about 1% of unadjusted values (Graph 5.A). These adjusted figures are thus significantly smaller than the numbers usually quoted in the press to argue that stablecoin activity dwarfs that of established payment services that support the real economy (Wolf (2025)). Within adjusted transaction volumes, in turn, only 0.4–0.9% of activities are of a size that would be relevant for retail players (<$250). This puts into question industry claims that stablecoins are already used at scale for eg remittances (see Graph 5.B, where retail-sized transactions are barely visible).

Stablecoin transaction values: mostly self-referential and non-retail[1] Graph 5



[1] The adjusted criteria aim to remove potential distortions that can arise from certain activity, such as high-frequency trading, intra-exchange volumes and bots. Retail-sized transactions are those that fall under any of the adjusted categories used by Visa and that are also less than $250.

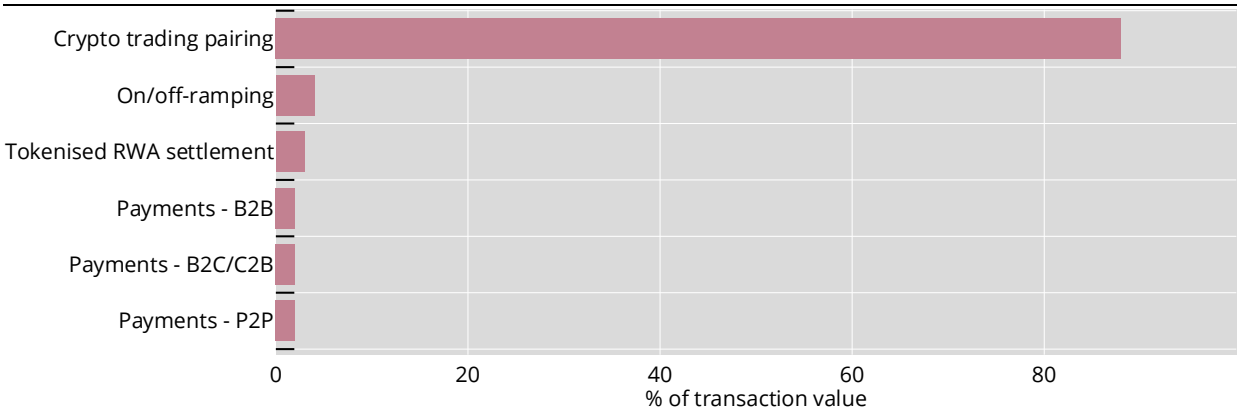
Source: Visa.

Beyond trading, stablecoins are embedded in decentralised lending and liquidity protocols, where they serve as collateral and borrowing instruments. Observed lending rates have, at times, exceeded off-chain benchmarks by substantial margins, binding activity to the availability of on-chain carry (Aldasoro et al (2023b)). Merchant acceptance in domestic retail contexts has begun in limited cases, for example through selected payment gateways.[11] But wider use for goods and services depends on deeper integration with existing rails, regulatory clarity on redemption rights and consumer

[10] These spreads create incentives to shift funds across the on-chain/off-chain boundary, particularly under zero or very low off-chain policy rates; they compress once monetary policy tightens. In this way, stablecoin demand is tightly linked to broader crypto market conditions and to the differential between on-chain returns and off-chain benchmarks, helping to explain the expansion in issuance during the pandemic and the subsequent contraction as policy rates rose.

[11] For example, Binance has entered agreements in Argentina to allow for quick response (QR) code payments to merchants using stablecoin wallets in its own app. See for example A Olowoporoku, "Binance revolutionizes Argentine payments with QR code crypto-to-peso bridge", *Cryptoboom*, 31 October 2025, https://www.cryptoboom.com/binancerevolutionizes-argentine-payments-with-qr-code-crypto-to-peso-bridge/.

Use cases of stablecoins as of end-2024[1] Graph 6



Sources: BCG (2025); Visa.

protection, and on the economics of on-/off-ramps and FX conversion. A lot of stablecoin use thus remains tethered to crypto activity itself (Graph 6).

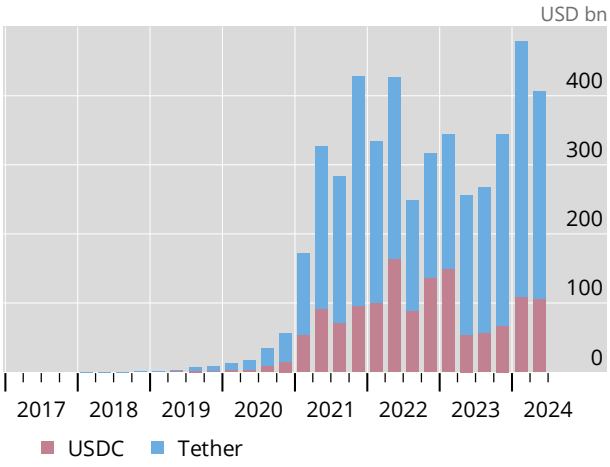
That said, the use of stablecoins in cross-border payments has grown, notably in corridors where legacy correspondent banking is slow or costly. Measurement is challenging given the use of pseudonyms. But multiple approaches suggest that, from early 2022 onwards, cross-border flows in the largest dollar-pegged stablecoins have at times surpassed those of Bitcoin and Ether, with pronounced heterogeneity across regions and corridor pairs (Graph 7.A; see also Reuter (2025) and Auer et al (2025). The Asia–Pacific region leads in absolute activity, while flows relative to economic size are higher in Africa and the Middle East and in Latin America and the Caribbean. Flows between EMDEs feature prominently and differ from traditional payment patterns routed through the Society for Worldwide Interbank Financial Telecommunications (Swift) (Adrian et al (2025)). Efficiency gains arise from continuous operation and reduced reconciliation needs, yet end-to-end frictions remain salient: on- and off-ramp fees, foreign exchange conversion and fragmentation across blockchains and issuers can erode potential benefits (CPMI (2023); Adrian et al (2025)).

Cross-border adoption interacts with macro-financial conditions (Graph 7.B). In economies with weak monetary frameworks or high inflation, foreign currency stablecoins can serve as a de facto store of value and payment instrument, with implications for currency substitution and for the effectiveness of capital flow management measures (Auer et al (2025)).

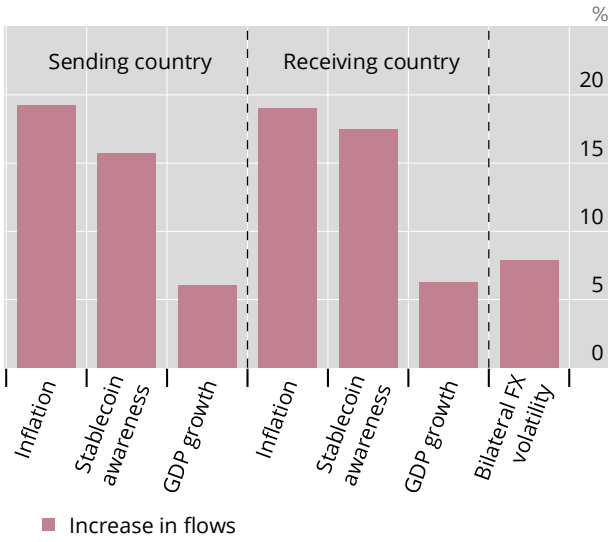
These dynamics underscore the need for sound macroeconomic policies. They also align with the dollar's role as a vehicle currency and foreshadow questions for monetary sovereignty in EMDEs. Notably, two of the most significant country-level drivers – high inflation and exchange rate volatility – are hallmarks of what the literature on international monetary hierarchies terms financial subordination (Nell (2004); de Paula et al (2017); Kaltenbrunner and Painceira (2018); Bonizzi et al (2020)). This suggests a self-reinforcing dynamic: economies that are already financially subordinate face conditions that make private sector stablecoin adoption more likely, and widespread adoption in turn risks entrenching a new, digitally mediated form of subordination.

Cross-border flows in stablecoins are rising and depend on country characteristics Graph 7

A. Cross-border flows in the largest stablecoins



B. Cross-country stablecoin flows are higher where there is higher inflation, stablecoin awareness and FX volatility[1]



[1] Estimated increase in bilateral cross-border tether flows for sending and receiving countries that experience high inflation (ie top quartile of a large sample of countries from 2017 to 2024), GDP growth, stablecoin awareness or bilateral foreign exchange (FX) volatility.

Sources: Auer et al (2025); Chainalysis.

Further potential use cases may emerge if tokenisation advances. On programmable ledgers, stablecoins can be used to pay for tokenised assets and services. They can be integrated with smart contracts to enable contingent settlement (eg delivery versus payment), potentially reducing reconciliation steps. In the retail domain, stablecoin payments could be adopted for e-commerce and point-of-sale where merchant acceptance and compliance tooling are available, particularly in markets with underdeveloped payment infrastructures. The trajectory of adoption will depend on regulatory clarity, interoperability with existing systems and competition from alternatives such as tokenised deposits and retail CBDCs (BIS (2023a); Aldasoro et al (2023a); Garratt and Shin (2023)). The predominance of USD-pegged coins implies that many such prospective use cases would embed dollar network effects unless alternative denominations scale.

3. Stablecoins and the international role of currencies

To systematically assess how stablecoins might reshape the international monetary system, we anchor our analysis in the canonical framework for understanding the functions of an international currency, as developed by Cohen (1971) and refined by Kenen (1983).[12] This framework distinguishes six distinct international uses of a currency, organised along two dimensions: the three classical functions of money (unit

[12] As van 't Klooster and Murau (2025) observe, this taxonomy involves simplifications. The most notable one is mapping the "unit of account" onto trade invoicing, which understates the pervasiveness of that function and is at issue in every use of a currency, not only in the denomination of trade. We retain the framework here for its analytical tractability and wide use in the literature, while acknowledging that the boundaries between functions are less sharp than the taxonomy implies.

of account, medium of exchange/means of payment and store of value) and the two main categories of users (private sector actors and official sector authorities). This taxonomy, summarised in Table 1, provides a structured lens through which to evaluate the potential impact of stablecoins on entrenched currency hierarchies. In applying this framework, we distinguish between two broad channels of impact: the potential for stablecoins to alter the relative standing of major currencies in international use and the more immediate prospect that dollar stablecoins facilitate currency substitution within EMDEs.

Functions of an international currency Table 1

Function	Private	Official
Unit of account	Invoice or settlement	Anchor or reference
Means of exchange/payment	FX market vehicle	FX market intervention
Store of value	International asset/liability	FX reserves

Sources: Adapted from Cohen (1971) and Kenen (1983).

Mapping international currency functions to observable indicators. We follow Ito and Kawai (2025) to map each cell in Table 1 to observable indicators of international currency use. For private sector uses, the unit of account function is captured by trade invoicing shares, ie the extent to which imports and exports are denominated in a particular currency. The medium of exchange function is reflected in FX market turnover, specifically the share of global transactions where a currency serves as one leg of a trade. The store of value function manifests in the currency composition of cross-border bank loans and deposits (international bank claims), the denomination of international debt securities and activity in interest rate derivatives markets. For official sector uses, the unit of account function corresponds to a currency's role as an anchor or reference, evidenced by the extent to which countries stabilise their exchange rates against it, thereby forming currency zones (Ito and Kawai (2025)). The medium of exchange function is seen in central banks' use of currencies for FX market intervention. The store of value function is most directly measured by the composition of official FX reserves. Data from Swift span both private unit of account and medium of exchange functions, reflecting invoicing, settlement and payment flows.

Graph 8 summarises most of these indicators with a focus on USD shares, given the dollar's extraordinary dominance across all dimensions. The dollar appears on one side of close to 90% of all FX transactions, accounts for roughly 60% of cross-border bank claims, nearly half of international debt securities and more than half of identified official FX reserves, trade invoicing, Swift payment messages and interest rate derivatives turnover. In every case, the dollar's share substantially exceeds the United States' share of global GDP, underscoring that the dollar's international role is sustained by factors far beyond its issuer's economic weight.[13] This dominance emerged from specific historical circumstances (Eichengreen (2011)) and is sustained by powerful network effects and increasing returns to scale, as formalised in models of international currency competition (Matsuyama et al (1993)). Once established, such dominance becomes self-reinforcing, as traders invoice in dollars because

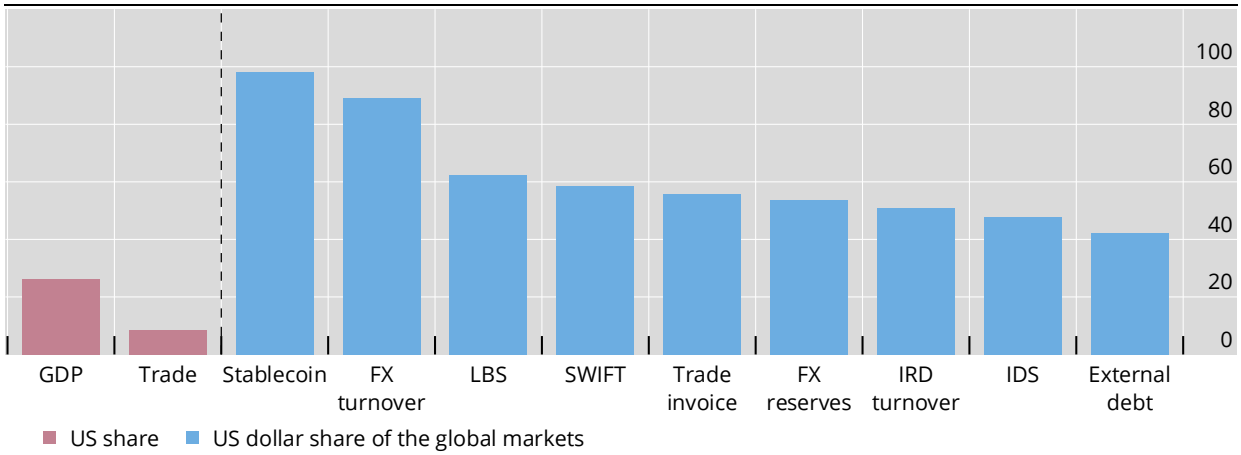
[13] While not presented explicitly in Graph 8, the euro occupies a clear but distant second position, while the pound sterling, Japanese yen and other currencies play notably more limited roles.

counterparties expect it, financial institutions hold dollar assets for their liquidity, and central banks accumulate dollar reserves because it is the dominant vehicle currency for intervention. This dynamic underpins the "exorbitant privilege" the United States enjoys, allowing it to finance external deficits at lower cost and earn higher returns on its external assets (Gourinchas and Rey (2007); Blustein (2025)).[14]

The international role of the US dollar[1]

In per cent

Graph 8



[1] Trade invoice = weighted average of export and import currency invoicing shares; LBS = international bank claims (cross-border and local claims) in foreign currencies; IDS = international debt securities outstanding; IRD = interest rate derivatives; FX = all foreign exchange instruments; Swift = global payments delivered via Swift. See the technical annex for details. Bars in both panels show shares in international transactions, including those that involve residents of the currency area on one side. Positions within a currency area are excluded where possible. Shares add up to 200% for FX turnover because transactions involve two currencies.

Sources: Allen et al (2023); Boz et al (2022); IMF, Direction of Trade Statistics; IMF, International Financial Statistics; IMF, World Economic Outlook, April 2024; Bloomberg; Swift; BIS international debt securities statistics; BIS locational banking statistics; BIS Triennial Central Bank Survey, 2022; authors' calculations.

Stablecoins and the reinforcement of dollar dominance. Against this backdrop, stablecoins' immediate impact appears likely to reinforce rather than challenge existing currency hierarchies, particularly dollar dominance. As documented in Graph 3, dollar-denominated stablecoins account for approximately 98% of the stablecoin market by value – a share even higher than the dollar's dominance in traditional international finance. Dollar-pegged stablecoins extend access to dollar-denominated transactions beyond traditional banking channels, offering 24/7 settlement and potentially lower transaction costs in certain corridors. For jurisdictions with underdeveloped payment infrastructure, FX controls or limited correspondent banking access, stablecoins may thus enhance the dollar's attractiveness and reach as an international currency by reducing the transaction and information frictions that influence currency choice (Rey (2001)).

This dynamic is especially consequential for EMDEs. In countries experiencing high inflation or volatile exchange rates, dollar-pegged stablecoins offer households and businesses readily accessible digital claims on US dollars without requiring local foreign-currency bank accounts. The pseudonymous, borderless nature of stablecoin transactions on public blockchains enables residents to acquire, hold and transfer

[14] The expression "exorbitant privilege" is attributed to Valéry Giscard d'Estaing, then French Finance Minister, who used it in the 1960s to criticise the asymmetric advantages the United States derived from the dollar's central role in the Bretton Woods system.

dollar-denominated value with relative ease, potentially circumventing capital controls and foreign exchange regulations. The empirical evidence discussed above supports this pattern: cross-border stablecoin flows have grown substantially, with pronounced activity in regions experiencing high inflation, bilateral exchange rate volatility and stablecoin awareness. This points to the potential of stablecoins to facilitate digital "stealth" dollarisation (Aldasoro et al (2025a)).

Disruption across currency functions. To understand which specific functions from Table 1 are most susceptible to disruption, we consider the typical sequencing of international currency adoption and the particular advantages stablecoins offer. Historically, currencies achieve international status through a contested sequencing of functions. Dominant-currency paradigms emphasise the medium of exchange as the starting point, with vehicle-currency status driving subsequent adoption (Gopinath and Stein (2021)). Post-Keynesian approaches instead highlight the unit of account, arguing that denominating contracts and debts in a currency anchors its international role (Kaltenbrunner and Painceira (2018)). [15] A third view holds that store of value considerations come first, as agents seek safe and liquid assets before adopting a currency for transactions (Ito and Kawai (2025)).

For stablecoins in EMDEs, we argue the store of value function is the most likely initial point of entry. This reflects the specific demand conditions in these economies: in contexts of high inflation and exchange rate volatility, the immediate appeal of dollar stablecoins lies in preserving purchasing power rather than in invoicing trade or settling routine payments. The empirical evidence discussed above (showing that stablecoin adoption is driven by macroeconomic instability) is consistent with this interpretation. This interpretation also implies that stablecoins could remain primarily vehicles for savings and speculation rather than evolving into functional transaction media, particularly where contracts, wages and tax obligations continue to be denominated in local currency.

Accordingly, we envision the following sequence: first as a store of value for private actors, then as a medium of exchange and subsequently as a unit of account, with official sector adoption typically lagging. This sequencing reflects increasing network externality requirements.

Store of value (private sector). Stablecoins are particularly well suited to disrupt this function in the near term. For residents of EMDEs facing currency depreciation or banking instability, stablecoins offer a means to hold dollar-denominated value outside the traditional financial system. The ability to self-custody stablecoins in unhosted wallets provides a degree of autonomy that traditional bank deposits lack. This could increase the dollar's share in what might be termed "private international reserves", ie the stock of dollar-denominated savings held by non-US residents, even if not fully captured in traditional measures like cross-border bank claims. This dynamic could intensify if stablecoins begin to offer interest or yield to holders, as some arrangements already do through intermediaries. A dollar stablecoin offering positive returns would compete directly with domestic-currency bank deposits, particularly in higher-inflation economies where real returns on local deposits are low or negative. The prospect of interest-bearing stablecoins is a subject of active debate in regulatory discussions, precisely because of their implications for deposit migration (implications that would be amplified in EMDEs with less developed banking systems).

[15] Others have argued that credit networks play an important role as well (Bridges (2024)).

Means of exchange/settlement (private sector). The evidence discussed in the previous section suggests this might be underway, although still from a very low base. However, there is some potential for further inroads. Stablecoins offer near-instantaneous settlement, operate continuously and can be integrated with smart contracts. For remittances, e-commerce and business-to-business payments in corridors where correspondent banking is slow or costly, these advantages are compelling despite remaining frictions at fiat on-ramps and off-ramps.[16] If this trend continues, stablecoins could increase the dollar's share in cross-border payment flows beyond what is captured in current Swift data, particularly for retail-sized transactions and underserved corridors.

Unit of account (private sector). This function faces the highest barriers to disruption. Trade invoicing patterns are deeply entrenched, reflecting long-standing commercial relationships, commodity pricing conventions and currency hedging practices. However, if stablecoins become widely used for both storing value and conducting transactions in a given economy or sector, prices may naturally begin to be quoted in stablecoins – or, equivalently, in US dollars given the peg. This would represent an acceleration of currency substitution, with the dollar becoming the unit of account for an increasing share of economic activity even as the domestic currency continues to circulate.

Official sector functions. Stablecoins are unlikely to directly affect anchor, intervention or reserve currency functions in the near term. Central banks have not, with very few exceptions, adopted stablecoins (or other crypto assets) for any official purposes.[17] However, widespread private sector adoption of foreign currency stablecoins could indirectly constrain official sector choices. If residents can seamlessly move savings into dollar stablecoins at the first sign of domestic currency weakness, central bank monetary policy autonomy is eroded, capital flow management measures become harder to enforce, and exchange rate management loses effectiveness. In extreme scenarios, authorities might face pressure to formalise de facto dollarisation that has occurred through stablecoin adoption, potentially affecting the configuration of currency zones as measured in the literature (Ito and Kawai (2025)).

Currency zones, offshore analogies and alternative possibilities. The currency zone analysis provides additional context. The dollar zone remains the largest by the economic weight of countries stabilising against the dollar, although this share has declined as more countries have adopted floating regimes and as the renminbi zone has emerged (Ito and Kawai (2025)). Stablecoins could affect these dynamics by increasing the effective economic weight of the dollar zone even without formal regime changes, should they become deeply embedded in economies with floating rates. Furthermore, by enabling easier currency substitution and weakening central

[16] That said, the absence of convenient off-ramps need not preclude widespread circulation. Physical dollar banknotes have long circulated in many EMDEs without easy conversion through the banking system, and stablecoins could follow a similar pattern, particularly where remittance inflows provide a steady on-ramp and where local merchants accept stablecoin payments directly.

[17] The Czech National Bank (CNB) announced in November 2025 that it had set up a test portfolio of digital assets (Bitcoin, stablecoins and tokenised deposits) worth USD 1 million to "gain practical experience with holding digital assets and to implement and test the necessary related processes". It was emphasised that it will not increase the size of this portfolio and that this is explicitly separated from international reserves. The government of El Salvador made Bitcoin legal tender in September 2021, but rescinded this status in 2025. The US state of Wyoming has a stablecoin commission that is issuing a stablecoin for use in commerce. In each of these cases, uptake to date is quite limited and has not yet had a notable impact on FX reserves, FX market intervention by central banks or the anchor or reference currency of the official sector.

banks' ability to manage exchange rates, stablecoins could contribute to further shifts towards floating regimes.

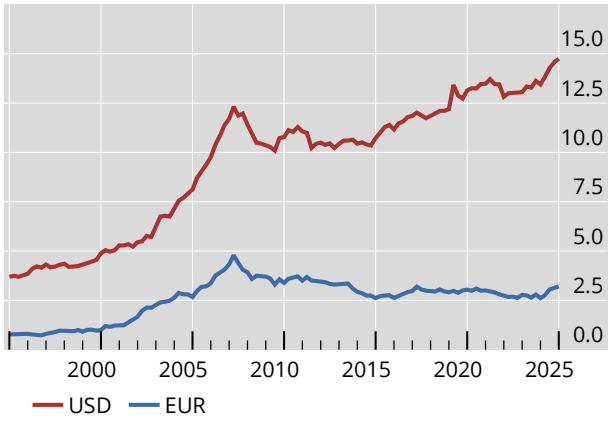
The analogy to offshore dollar (eurodollar) markets is instructive but it highlights a key structural difference. As shown in Graph 9, offshore dollar liabilities booked by banks outside the United States amount to approximately $14 trillion, dwarfing the current stablecoin market. But stablecoins have grown to exceed offshore Swiss francs, for example, and they operate under fundamentally different arrangements. Eurodollars emerged through regulated banking channels and were ultimately backstopped by central bank swap lines. In contrast, stablecoins circulate as bearer-like instruments on public blockchains, accessible largely outside traditional banking regulation and, so far, without explicit backstops. This structural difference makes stablecoins potentially more disruptive to capital controls and foreign exchange regulations, even though they are at a smaller scale (Adrian et al (2025)); and, if they scale, also to financial stability.

Offshore money dwarfs on-chain money[1]

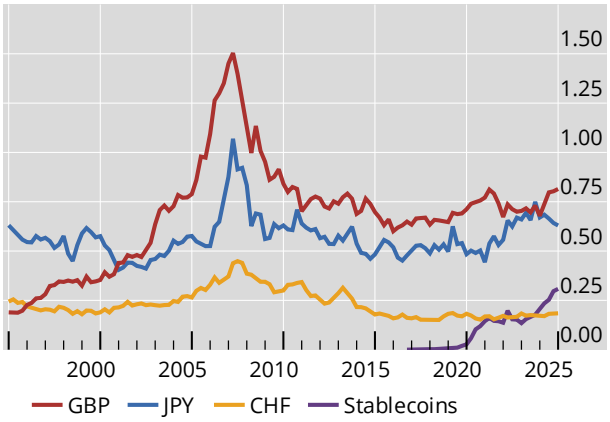
In trillions of USD

Graph 9

A. The USD is global money



B. Stablecoins surpassed offshore CHF



[1] Offshore money is computed as liabilities booked by internationally active banks in BIS reporting jurisdictions that do not issue the respective currency.

Sources: BIS Locational Banking Statistics; authors' calculations.

Indeed, from the perspective of EMDEs, stablecoins may be less analogous to eurodollars (which operate within the elastic credit infrastructure of advanced-economy banking) than to the dynamics of traditional dollarisation and currency boards. Like currency boards, stablecoin arrangements impose a form of discipline on peripheral economies: each unit in circulation must be backed by reserves in the reference currency, there is no lender of last resort, and parity deviations serve as a market signal of stress (van 't Klooster et al (2025)).[18] The key difference is that this discipline is imposed not by a sovereign monetary arrangement but by private issuers operating on public blockchains, largely outside the regulatory perimeter.

While current stablecoins overwhelmingly reinforce dollar dominance, they do not need to be limited to replicating existing hierarchies. Euro-denominated stablecoins

[18] Eurodollars might thus be a better analogy for the supply-side architecture (private dollar claims circulating beyond US borders), but dollarisation/currency boards are a better fit for the demand-side dynamics in EMDEs.

exist, though they constitute a small fraction of the market. Regulatory developments like the EU's Markets in Crypto-Assets (MiCA) regulation may shape their growth. More speculatively, private entities might issue stablecoins pegged to currency baskets, creating new private vehicle currencies. The implications would be ambiguous: such innovations could diversify international payment options, but they also risk fragmenting the monetary system. The trajectory of adoption will depend on whether they substitute for or complement existing monetary forms – a key dimension of the emerging "monetary ecology" of digital currencies (Brunnermeier and Landau, (2022)). Historical experience suggests market forces tend towards concentration on a small number of dominant monies, but technological transitions can be disruptive.

Implications for EMDEs. The rise of dollar stablecoins presents a dual challenge that tightens the fundamental policy trilemma between exchange rate stability, monetary autonomy and financial openness (Obstfeld (2015)). By effectively increasing the degree of financial openness (providing residents with new channels to access foreign-currency instruments), stablecoins intensify the trade-off between exchange rate stability and monetary autonomy, even without formal changes to capital account policy. However, widespread adoption risks eroding monetary sovereignty by enabling rapid currency substitution that is difficult for authorities to monitor or control. When residents can seamlessly shift savings into dollar stablecoins, central banks lose monetary policy traction, and capital flow management measures become less effective, as digital channels provide new avenues for circumvention that compound existing leakage problems (Pasricha et al (2018)). Furthermore, the concentration of stablecoin reserves in US Treasury bills creates a direct channel through which global demand for private digital dollar claims feeds into demand for US sovereign debt, potentially affecting yields and monetary policy transmission in ways that reinforce the dollar's structural position in the international monetary and financial system (Ahmed and Aldasoro (2025); Ferrari Minesso and Siena (2026)).

Stablecoin-driven dollarisation and traditional dollarisation. The dynamics described above invite comparison with traditional forms of dollarisation. The literature distinguishes several channels through which foreign currency penetrates domestic economies: the holding of foreign banknotes, the denomination of bank deposits and loans in foreign currency, and the invoicing of trade and contracts in foreign units (Levy Yeyati (2006)). All of these channels remain operative.

Stablecoins introduce additional channels –holding dollar-denominated tokens in hosted or unhosted digital wallets – that differ from traditional dollarisation in several respects. First, access is potentially easier: stablecoins can be acquired through exchanges and peer-to-peer transfers without requiring a foreign-currency bank account, and in some cases without formal identification, lowering the threshold for participation. Second, the medium is more convenient: transactions are available continuously, require only a smartphone and can in principle bypass domestic banking infrastructure and capital controls. Third, the process is harder for authorities to monitor: pseudonymous on-chain transactions are less visible to regulators than movements through the banking system.

These properties suggest that stablecoin-driven dollarisation could proceed more rapidly and prove harder to reverse than its traditional counterpart. At the same time, important frictions remain. Limited digital and financial literacy, income and tax obligations denominated in local currency, and the costs and frictions of converting between stablecoins and fiat money at on- and off-ramps all constrain adoption. Stablecoins thus represent not a replacement for traditional dollarisation channels but a new and potentially more accessible layer on top of them.

In summary, stablecoins are most likely to affect private sector store of value and medium of exchange functions in the near term, particularly in EMDEs where they offer accessible alternatives to domestic currency instruments. These effects would predominantly reinforce dollar dominance given the current market composition, leveraging and extending the network effects described in the theoretical literature. Unit of account functions face higher barriers but could shift if stablecoin adoption becomes sufficiently widespread. Official sector functions are unlikely to be directly affected in the near term but could be indirectly constrained by large-scale private sector adoption that enables stealth dollarisation and complicates policy autonomy. The trajectory will depend critically on whether stablecoins move beyond the crypto ecosystem to real-economy transactions, whether non-dollar stablecoins achieve scale, how regulatory frameworks evolve and whether retail CBDCs provide state-backed alternatives. Understanding these contingencies requires careful attention to alternative scenarios for stablecoin adoption, which we now turn to in section 4.

4. Scenarios for future use of stablecoins

The trajectory of stablecoins' impact on the international monetary system depends critically on their adoption patterns, regulatory responses and interaction with broader trends in digital finance. To illuminate the range of plausible futures, we develop three scenarios that span from marginal to transformative roles for stablecoins in cross-border finance. These scenarios are not mutually exclusive across jurisdictions, nor are they meant to be exhaustive or to represent precise forecasts. Rather, they serve as tools for exploring how different adoption paths would affect monetary sovereignty, financial stability and currency hierarchies, particularly in EMDEs. While we do not assign precise probabilities, we consider the first two scenarios (niche adoption and digital dollarisation) to be the more plausible near-term trajectories. Niche adoption reflects the current baseline; digital dollarisation captures the risk that rapid uptake materialises in vulnerable economies. Domestic stablecoin integration, though potentially attractive as a policy aspiration, requires institutional and regulatory capacity that many EMDEs currently lack, making it less likely to emerge at scale in the near term.

Scenario 1: niche adoption

In this scenario, stablecoins remain primarily instruments for on-chain trading within the crypto ecosystem, with limited penetration into real-economy transactions. While residents of a handful of high-inflation economies use stablecoins as offshore stores of value, widespread adoption for everyday payments fails to materialise. Public confidence is periodically dented by high-profile hacks, temporary de-peggings or runs on major issuers. Regulatory uncertainty persists, individual adoption is lacklustre, and mainstream merchants remain reluctant to accept stablecoins given compliance burdens and price volatility concerns at on- and off-ramps.

Under this scenario, usage is concentrated in crypto exchanges, decentralised finance protocols and specific remittance corridors where correspondent banking is particularly costly or unreliable. In EMDEs, adoption remains highly uneven. Pockets of dollar-stablecoin hoarding emerge in economies experiencing acute currency crises or high inflation (eg Venezuela, Lebanon, Iran, Argentina) but everyday retail payments continue to be denominated in domestic currency. The volumes documented in

Graph 5, which show that adjusted stablecoin transaction activity is dominated by non-retail participants and remains modest relative to established payment systems, persist as the baseline pattern.

The implications for monetary sovereignty and financial stability in this scenario are correspondingly limited. Capital flow management measures experience some leakage through peer-to-peer on-chain transfers, but volumes remain small relative to overall balance of payments flows. Central banks retain meaningful monetary policy traction, as deposit and loan dollarisation proceeds, if at all, through traditional channels rather than via stablecoins. The local yield curve and credit channel remain largely unaffected. Financial stability risks remain concentrated within the crypto ecosystem itself, characterised by price volatility and leverage in decentralised protocols, with minimal spillovers to the banking system given low institutional exposure. Even so, the mere availability of dollar stablecoins as an outside option may impose a form of market discipline on EMDE policymakers. The knowledge that residents can shift savings into stablecoins relatively easily raises the expected cost of unsound macroeconomic policies, even if actual adoption volumes remain modest.

This scenario raises questions about the appropriate regulatory stance. Should supervisors focus primarily on consumer protection and anti-money laundering compliance rather than systemic oversight? Does formal regulation risk conferring legitimacy on stablecoins and thereby weakening "caveat emptor" warnings? Are regulatory sandbox regimes sufficient, or should full licensing be required even for marginal on- and off-ramp operations? The niche adoption scenario would validate a light-touch approach focused on integrity risks and consumer protection, while reserving systemic oversight for circumstances where cross-border flows or domestic holdings reach materiality thresholds.

Some jurisdictions may actively seek to keep stablecoin adoption at this niche level. China offers an instructive case: authorities have imposed a comprehensive ban on cryptocurrency trading and mining since 2021 (reasserted in February 2026), effectively excluding stablecoins from the domestic financial system. This approach, combined with the development of the e-CNY as a state-backed digital payment alternative, suggests that countries with sufficient regulatory capacity and political will can contain stablecoin penetration. However, replicating China's approach requires a degree of institutional capacity, infrastructure and control over digital access points that may not be available to many EMDEs. Where enforcement is weaker, even nominally strict bans may prove porous, allowing stablecoin usage to persist through peer-to-peer channels and offshore exchanges. This creates a pathway from niche adoption towards the dynamics described in scenario 2.

Scenario 2: digital dollarisation

The second scenario envisions rapid adoption of USD-denominated stablecoins as the de facto cross-border retail payment infrastructure in many EMDEs, with swift spillovers into domestic pricing and settlement.[19] The key drivers under such a scenario are economic: stablecoins offer materially lower foreign exchange spreads than traditional banking channels, near-instantaneous settlement and, crucially, a "dollar brand" that signals stability to households and firms in high-inflation environments. Network

[19] While this scenario focuses on privately issued stablecoins, similar dynamics could in principle arise from the cross-border adoption of foreign-currency CBDCs, should any major-currency central bank issue a retail CBDC that becomes accessible in EMDEs.

effects accelerate adoption in remittance corridors, particularly north-south flows, and in e-commerce platforms operating across borders.[20] Large merchants begin quoting prices directly in dollar-pegged stablecoins to avoid currency conversion costs and exchange rate risk.

Domestic banks, rather than resisting this shift, respond by offering on- and off-ramp services and even stablecoin-denominated savings products. This effectively accelerates deposit dollarisation. This development mirrors historical episodes of financial dollarisation in Latin America and elsewhere (Levy Yeyati (2006)) but proceeds more rapidly given the accessibility and programmability of blockchain-based instruments. The private sector increasingly denominates contracts, invoices and balance sheets in what amounts to "crypto-synthetic dollars", even as domestic currency continues to circulate for tax payments and small-scale retail transactions.

The macroeconomic and financial stability implications of this scenario are profound. Monetary policy loses traction as interest rate changes affect a shrinking share of economic activity. The transmission mechanism weakens because a large portion of savings and lending occurs in dollar stablecoins rather than domestic currency instruments. Moreover, savings held in dollar stablecoins are effectively intermediated abroad: issuers invest reserve assets predominantly in US Treasury bills, meaning that domestic liquidity is redirected towards financing US sovereign debt rather than supporting local credit creation. Over time, this disintermediation of domestic savings could constrain the development of local credit markets and financial institutions, echoing dynamics observed under historical currency board arrangements (van 't Klooster et al (2025)). Under such a scenario, exchange rate pass-through to domestic prices accelerates as the share of transactions and contracts denominated in dollars rises. Central banks find themselves in a position reminiscent of highly dollarised economies in the 1990s and 2000s, but with reduced visibility and control given the decentralised nature of stablecoin holdings and transfers.

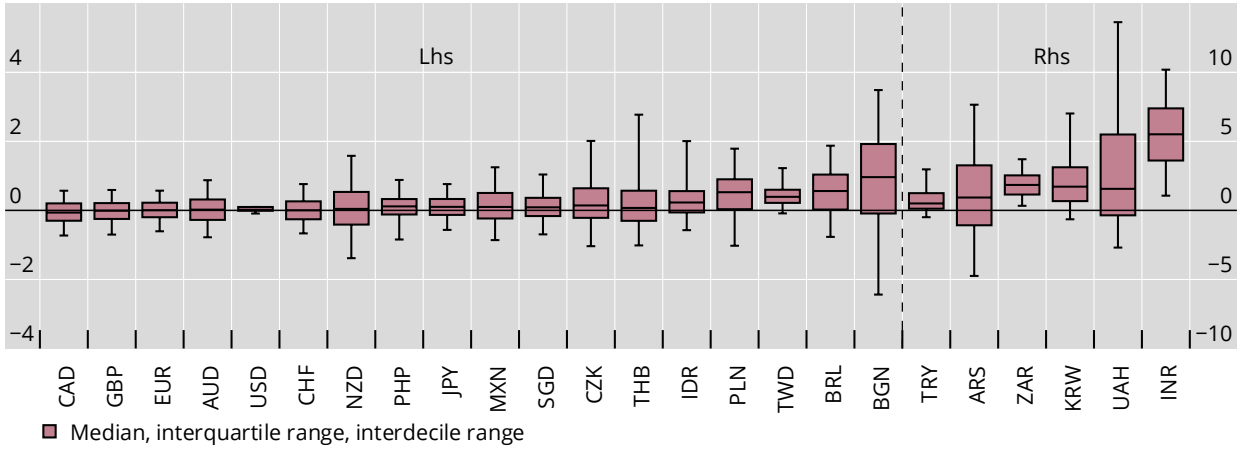
Capital flow management becomes significantly more challenging. Stablecoins provide a 24/7 channel to circumvent foreign exchange regulations. Traditional metrics for monitoring capital flows (eg customs declarations, banking system data or balance of payments statistics) become less reliable, as substantial volumes move through pseudonymous blockchain transactions. Authorities may resort to indirect indicators to assess the effectiveness of capital controls, such as the magnitude of deviations between stablecoin prices and official exchange rates in local fiat markets. Graph 10 documents the distribution of such parity deviations across currencies, showing that EMDE currencies with capital controls and multiple exchange rates already exhibit particularly large and persistent wedges between stablecoin-implied and official dollar rates. These deviations provide revealed-preference evidence of demand for dollar-denominated instruments that circumvent official channels.

[20] The supply side could also play a decisive role. Stablecoins bring together two sectors in which the United States holds a dominant international position: finance and digital technology. If major US technology platforms integrate dollar stablecoins into their user interfaces (eg for payments, marketplace transactions or in-app wallets), they could effectively market dollar-denominated instruments directly to retail users worldwide, bypassing traditional financial intermediaries (van 't Klooster et al (2025)).

Distribution of parity deviations by currency[1]

In per cent

Graph 10



[1] This graph shows the distribution of parity deviations against the USD by fiat currency (black median line with interquartile range boxes and whiskers denoting the 5th–95th percentiles). The sample includes all pairs of fiat currencies and USD-pegged stablecoins between 2021 and 2025. All series are constructed from data at the fiat-stablecoin level with volume-weighted averages across exchanges. Parity deviations for the Argentinean peso (ARS), Nigerian naira (NGN) and Ukrainian hryvna (UAH) are measured based on parallel rates. For details on computations, see Aldasoro et al (2026).

Source: Aldasoro et al (2026).

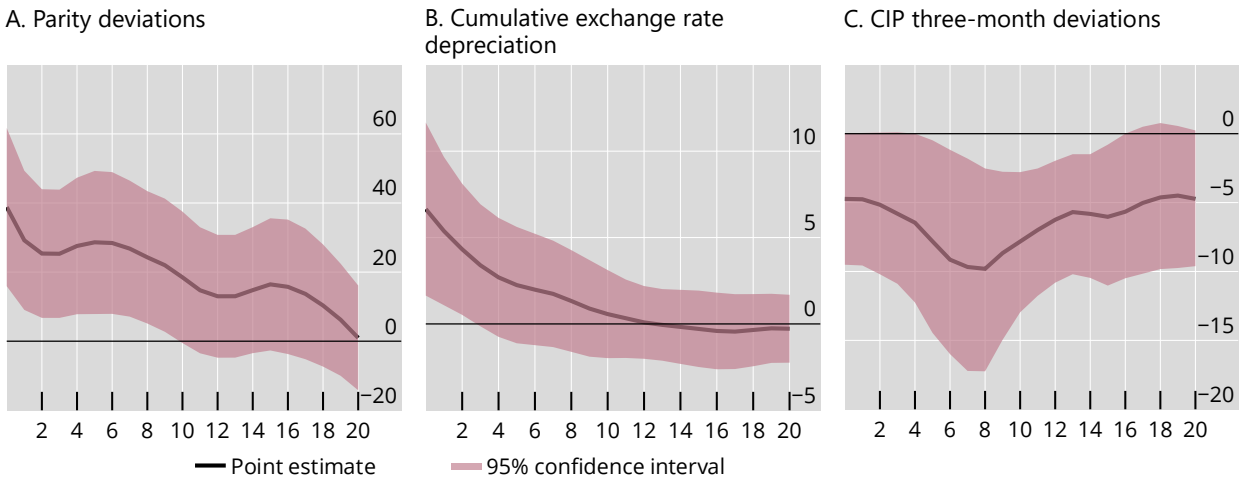
The empirical evidence suggests that stablecoin flows can have economically meaningful effects on FX markets. Graph 11 presents impulse responses from local projections, from Aldasoro et al (2026). An increase in stablecoin flows is associated with subsequent parity deviations, cumulative domestic currency depreciation and covered interest parity violations at both short- and medium-term maturities. These patterns are consistent with stablecoin adoption enabling circumvention of capital controls and creating segmented markets where on-chain dollar claims trade at a premium to non-crypto channels.

Financial stability risks also intensify. Corporate balance sheets accumulate large holdings of dollar stablecoins, effectively unhedged dollar exposures for firms with domestic-currency revenues. A run on a major stablecoin issuer, whether triggered by questions about reserve adequacy or operational failures, would transmit directly into EMDEs' financial systems as residents scramble to exit positions. The concentration of stablecoin reserves in US Treasury bills means that such a run could also generate volatility in short-term dollar funding markets, with potential spillovers to monetary policy transmission globally (Ahmed and Aldasoro (2025)).

The causal effect of stablecoin flows on foreign exchange markets[1]

In basis points

Graph 11



[1] Impulse response functions computed via local projections, capturing the effect of a 1% increase in stablecoin flows, instrumented as in Aldasoro et al (2026). CIP = covered interest parity.

Source: Aldasoro et al (2026).

This scenario demands active policy responses. Should authorities impose reserve requirements, redemption limits or holding caps on foreign-currency-denominated stablecoins? How can domestic payment innovations such as fast payment systems or retail CBDCs provide competitive local-currency alternatives that offer some of the convenience benefits of stablecoins while preserving monetary sovereignty? What cross-border supervisory arrangements are needed to ring-fence reserve assets and ensure orderly resolution in the event of a major stablecoin failure? The digital dollarisation scenario would validate calls for stringent regulation of stablecoin issuers and intermediaries, alongside efforts to strengthen domestic payment infrastructure and potentially restrict foreign-currency stablecoin use in domestic transactions.

Scenario 3: domestic stablecoin integration

The third scenario envisions multiple EMDEs licensing banks, fintech firms or financial market infrastructures to issue local-currency stablecoins that interoperate with national fast payment systems and, where relevant, retail CBDCs or tokenised central bank reserves. Rather than ceding ground to foreign-currency stablecoins, authorities in this scenario harness the technology to modernise domestic payment systems while maintaining monetary control. Reserve backing is strictly ring-fenced – held in central bank reserves, bank deposits or short-term government securities, depending on the regulatory framework adopted and issuers' choices. If reserves are held in domestic government securities, local-currency stablecoin issuance could support demand for sovereign debt and help retain savings within the domestic financial system (in contrast to the outflow of savings towards US Treasuries implied by the digital dollarisation scenario). [21] Transparency and disclosure requirements are robust, modelled on

[21] This of course requires markets for government securities that are deep and liquid enough, not a foregone conclusion for EMDEs.

international standards for stablecoin arrangements (FSB (2023); CPMI (2023); CPMI and IOSCO (2022)).

Use cases in this scenario span government transfers, utility bill payments, e-commerce and eventually securities settlement. The programmability of stablecoins enables innovations such as conditional payments, automated escrow arrangements and delivery versus payment in tokenised asset markets. Local currency stablecoins coexist (and in some cases interoperate) with established fast payment systems and potentially retail CBDCs or tokenised central bank reserves, creating a diverse "monetary ecology". Citizens and businesses can choose among multiple forms of digital money based on their needs for privacy, programmability, remuneration and regulatory protection.

However, regulatory frameworks diverge substantially across jurisdictions. Some countries treat stablecoin issuers as narrow banks subject to prudential supervision, while others regulate them as e-money institutions with lighter capital and liquidity requirements. Still others adopt hybrid models or create bespoke regulatory categories for tokenised deposits versus stablecoins. This heterogeneity creates challenges for cross-border interoperability and generates opportunities for regulatory arbitrage, as issuers may establish themselves in jurisdictions with more permissive frameworks while serving users globally.

The macroeconomic implications of this scenario are more benign than those of digital dollarisation, though not without complications. Payment efficiency improves as lower merchant fees and instant settlement reduce transaction frictions, potentially raising GDP through the same mechanisms documented for fast payment systems (Agur et al (2022)). Financial inclusion may advance if stablecoins provide access to digital payments for unbanked populations, though this depends critically on device penetration, digital literacy and regulatory frameworks that ensure consumer protection.

The banking system faces structural pressures as sight deposits migrate to stablecoin holdings, compressing net interest margins. Naturally, this may be an advantage for households and businesses, who could benefit from more competitive pricing. Banks may respond by issuing their own tokenised deposits or stablecoins, reshaping their funding mix towards term deposits or wholesale funding, or focusing on credit provision rather than deposit-taking. The equilibrium structure of the financial system could shift towards narrower banking models for payment services and specialised credit intermediaries, an outcome that some have advocated on financial stability grounds but that raises questions about credit supply and monetary policy transmission (Mancini-Griffoli et al (2018)). The implications for systemic stability are ambiguous.

Capital flow management remains challenging even with local-currency stablecoins. If users can seamlessly swap domestic stablecoins for foreign-currency stablecoins on decentralised exchanges or through cross-chain bridges, capital controls lose their effectiveness. However, authorities have greater visibility and points of intervention than in the digital dollarisation scenario. Regulated on- and off-ramps provide choke points where know-your-customer and anti-money laundering checks can be enforced, and where cross-border transfers can be monitored. On-chain analytics can supplement traditional balance of payments data, providing near real-time insights into flows (Auer et al (2025)).

A further risk is political capture. Where governance institutions are weak, authorities could use domestic stablecoin issuance to extract seigniorage revenues or

channel funds towards politically favoured ends, undermining the monetary neutrality that the arrangement is intended to preserve. More broadly, the intersection of private stablecoin issuance with domestic political interests creates scope for corruption and conflicts of interest that could erode public trust in these instruments.

Finally, if domestic stablecoins become widely used for payments, there may be new systemic risks. If, for instance, an operational incident arises, such as an operational failure at a major stablecoin issuer or a so-called 51% attack on a major blockchain, there is a risk that a widely used payment instrument is impaired and households and businesses either lose funds or do not have access to critical payment services. These risks are qualitatively similar to the operational risk in current payment systems, but public blockchains have unique technological characteristics due to their permissionless nature.

The domestic stablecoin integration scenario raises distinct policy questions. What is the optimal reserve framework for stablecoin issuers: full backing with central bank reserves, as required for narrow banks, versus high-quality liquid securities, as permitted for MMFs? How can interoperability be achieved between stablecoins issued by different entities, legacy bank accounts, fast payment systems, tokenised deposits and MMFs, and potentially a retail CBDC? Who bears residual risk if a stablecoin issuer fails and reserves prove insufficient – the issuer's shareholders and creditors, a deposit insurance fund or ultimately the central bank as lender of last resort? These questions echo long-standing debates about the merits and risks of narrow banking and the appropriate boundary between public and private money provision (Fisher (1935); Tobin (1985); Litan (1987); Cochrane (2014)).

Cross-cutting considerations

Several themes cut across these scenarios and merit emphasis. First, the distribution of outcomes is likely to be highly heterogeneous across countries, reflecting differences in macroeconomic stability, regulatory capacity, financial market development and pre-existing payment infrastructure. Countries with well-functioning domestic payment systems, credible monetary frameworks and effective capital account policies may be better positioned to maintain existing payment methods, channel stablecoin adoption towards local-currency instruments and maintain policy autonomy. Conversely, economies with weak institutions, high inflation and limited financial access may experience rapid dollarisation via stablecoins with limited capacity for policy response.

Second, regulatory choices in major jurisdictions (particularly the United States and European Union) will significantly shape global outcomes. The US GENIUS Act explicitly aims to maintain dollar dominance by facilitating compliant stablecoin issuance backed by dollar reserves. The EU MiCA regulation includes safeguards against non-euro stablecoins undermining the monetary transmission mechanism (van 't Klooster et al (2025); Cheng and Finesi (2026)). In this respect, MiCA also offers early evidence on the viability of a domestic stablecoin integration path, providing a regulatory template for encouraging domestic-currency digital money while managing the risks of foreign-currency substitution. These frameworks create path dependencies that may privilege dollar and euro stablecoins over other currencies, reinforcing existing hierarchies even as the technological substrate changes. These regulatory dynamics also intersect with geopolitical tensions. The weaponisation of dollar-based financial infrastructure through sanctions has increased incentives for some actors to seek alternative payment channels (Fishman (2025); McDowell (2023)). Stablecoins

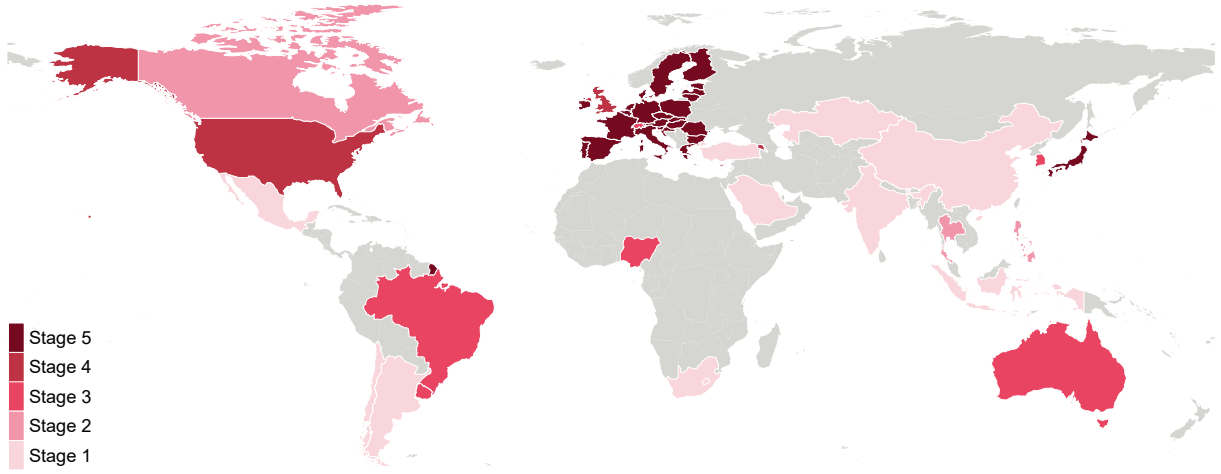
could serve as partial workarounds, complicating enforcement and adding a geopolitical dimension to the scenarios described above.

Third, authorities will have to contend with activities that may be difficult to oversee and regulate. Already, there is a striking disconnect between well-developed regulatory frameworks in some jurisdictions and activities taking place outside the regulatory perimeter. It is as if authorities have built a luxurious new regulatory house, only to see crypto innovators camp out in the yard outside. Going forward, there may be significant challenges in bringing legitimate activities into the regulatory cordon, while combating explicitly illicit activities (especially money laundering and terrorism financing). Using the technological capabilities of blockchain to trace and block illicit activities could hold promise (Aldasoro et al (2025c)).

Fourth, the interaction between stablecoins and other forms of digital money (particularly retail CBDCs and tokenised deposits) will be crucial. If CBDCs offer comparable functionality to stablecoins with greater safety and regulatory certainty, they may capture market share and limit stablecoin adoption. Alternatively, private stablecoins may thrive in niches where programmability, pseudonymity or cross-border interoperability are valued, while CBDCs serve domestic retail payments. The optimal policy approach likely involves establishing clear regulatory frameworks that enable different forms of digital money to coexist and compete, while ensuring interoperability and guarding against fragmentation that would undermine the efficiency and stability of the monetary system (BIS (2023a)).

Finally, international coordination will be essential regardless of which scenario materialises. Stablecoins are inherently cross-border instruments, and their regulation, supervision and resolution cannot be effectively addressed by national authorities acting in isolation. The Financial Stability Board's recommendations for global stablecoin arrangements provide a foundation, but implementation remains uneven (Graph 12) (FSB (2025)). Cooperation is needed on reserve standards, disclosure requirements, cross-border resolution mechanisms and frameworks for managing

Implementation of international stablecoin standards is uneven — Graph 12



[1] Stage 1 – no framework in place; Stage 2 – partial regulations in place; Stage 3 – plans for framework under public discussion; Stage 4 – framework proposed but not finalised; Stage 5 – regulatory framework finalised. The use of this map does not constitute, and should not be construed as constituting, an expression of a position regarding the legal status of, or sovereignty of any territory or its authorities, to the delimitation of international frontiers and boundaries and/or to the name and designation of any territory, city or area.

Source: FSB (2025).

monetary spillovers when foreign-currency stablecoins achieve systemic scale in host jurisdictions. The alternative, ie a fragmented landscape of incompatible national regulations, would generate regulatory arbitrage, reduce any efficiency gains from stablecoins' cross-border nature and heighten financial stability risks.

The scenarios outlined here illuminate the stakes. Niche adoption represents continuity with contained policy challenges. Digital dollarisation poses acute risks to monetary sovereignty and financial stability in EMDEs, potentially accelerating trends toward informal dollarisation that have long concerned policymakers. Domestic stablecoin integration offers a path to harness efficiency gains while preserving policy autonomy, but it requires regulatory capacity and coordination that may be beyond the reach of many jurisdictions. In the face of stablecoin adoption, the evolution of the international monetary system will reflect the interaction of these forces – technological possibility, economic incentives, regulatory choices and the distribution of power, both across countries and between public and private actors.

5. Conclusions

Stablecoins have experienced rapid growth, evolving from niche crypto assets into a significant component of digital finance with meaningful cross-border transaction volumes. This expansion coincides with ongoing regulatory developments in major jurisdictions, presenting a complex set of challenges and opportunities for the international monetary system. These challenges are particularly acute for EMDEs, where stablecoins intersect with long-standing issues of monetary sovereignty, financial stability and capital flow management.

The analysis began by documenting the structure of the stablecoin market. It is characterised by the overwhelming dominance of USD-pegged instruments, with 98% of the market by value. While their primary use remains within cryptocurrency trading ecosystems, they are increasingly employed for cross-border payments, especially in corridors with high inflation or underdeveloped banking infrastructure. Their architecture, relying on off-chain reserves and on-chain transferability, creates distinct challenges for stability and oversight.

Applying the canonical framework of international currency functions can shed light on the channels of potential impact. Stablecoins are most immediately positioned to affect the private sector roles of money, specifically as a store of value and a medium of exchange. In EMDEs, they can facilitate a form of digital "stealth dollarisation", allowing residents to circumvent capital controls and hold dollar-denominated savings with relative ease, thereby eroding monetary policy autonomy. The official functions of a currency are less directly vulnerable in the near term but can be indirectly constrained by widespread private adoption.

To explore the range of possible futures, we developed three hypothetical scenarios. The niche adoption scenario implies limited systemic impact. The digital dollarisation scenario foresees rapid uptake of dollar stablecoins as de facto payment infrastructure in EMDEs, posing severe risks to monetary sovereignty and complicating financial stability. The domestic stablecoin integration scenario envisions EMDEs authorising local-currency stablecoins to modernise payments while retaining control, though this demands considerable regulatory capacity.

Looking forward, the trajectory of stablecoins will be shaped by the interplay of technological adoption, regulatory choices in key jurisdictions and competitive dynamics with other digital monetary forms like retail CBDCs. For policymakers, especially in EMDEs, the imperative is to develop sound macroeconomic frameworks and strengthen regulatory capacity; but the window for doing so may be narrowing. The conditions that make stablecoin-driven dollarisation most likely – high inflation, exchange rate volatility and weak institutional frameworks – are the same conditions that constrain the capacity to respond. There is a risk of a self-reinforcing dynamic in which the countries most vulnerable to digital currency substitution are least equipped to manage it, entrenching new forms of financial subordination in international monetary hierarchies. Unlike traditional dollarisation, which typically proceeds through the banking system and remains at least partially visible to regulators, stablecoin-driven currency substitution operates through channels that are harder to monitor, potentially faster to propagate and more difficult to reverse. This raises the prospect that digital financial subordination becomes structurally embedded before policymakers can respond.

The policy choices made in the coming years, both by EMDEs themselves and by the major jurisdictions whose currencies and firms dominate the stablecoin market, will be consequential. Internationally, coordinated efforts on oversight, reserve standards and cross-border resolution will be essential – not only to manage financial stability risks but also to preserve the policy space that developing countries need to chart their own monetary futures.

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