Stablecoins: framing the debate

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Introduction

Good morning. It is a real pleasure for me to give this seminar here at the Bank of Japan. Your central bank has been at the forefront of experimenting with technological innovation for the financial system. One key initiative is the FinTech Center, which was established 10 years ago this month. The BIS is also proud to be working with you on Project Agorá, to facilitate improved cross-border payments.

Why is it important for the central banking community to discuss technological innovation for the financial system today? Innovation is raising fundamental questions about how money adapts to the digital age. It includes tokenisation – the digital representation of assets on a programmable platform – which is recognised as having the potential to pave the way for new arrangements in cross-border payments, securities markets and beyond. One such development, emanating from the crypto ecosystem, is the emergence of stablecoins as privately issued instruments that aspire to serve as a new means of payment and borderless store of value.

The emergence of stablecoins has prompted the introduction and development of regulatory frameworks in many jurisdictions. Here in Japan, policymakers have taken a thoughtful and early interest in stablecoins. Indeed, Japan was an early mover with amendments to the Payment Services Act in 2022. Japan's framework has subsequently informed regulatory approaches in other jurisdictions.

In my remarks today, I would like to frame the broader debate on stablecoins. I will first discuss the characteristics and current use cases of stablecoins. Then I will reflect on the "moneyness" of today's stablecoins, meaning the degree to which they function as a means of payment. Finally, considering scenarios that assume broader future adoption, I will point to some of their potential macro-financial implications. In my view, these implications are central when considering how current stablecoin arrangements would need to be improved to serve society.

As I will stress, stablecoins have several potential use cases and offer attractive technological features which can enable integration with smart contracts and faster cross-border payments. However, the market remains small, and structural features – stemming partly from the nature of public blockchains and partly from design choices – constrain their moneyness. If widely adopted in their current form, stablecoins would pose policy challenges in several areas, ranging from credit provision to monetary policy. For policymakers, it is key to consider how these challenges might differ from those that arise in today's two-tier banking system. In particular, risks to financial integrity, including investor and consumer protection, and regulatory evasion loom large.

I also want to recall a more fundamental principle for money. Stablecoins seek to leverage trust in fiat currency. This underscores that the monetary anchor provided by central banks remains indispensable – regardless of the future role of stablecoins or any other technological innovation. Ultimately, money is far more than a technology: it is an institutional achievement that prospers with trust in domestic and international cooperation.

Stablecoins' characteristics and use cases

Let me start with some basic facts about stablecoins.

First, what are stablecoins? In brief, they are cryptoassets that aim to maintain a stable value against a reference asset, most commonly the US dollar. For fiat currency-pegged stablecoins, the promise of redemption at a fixed price means their appeal hinges on the trust in the underlying currency.

From a technological point of view, stablecoins are digital tokens that circulate on public, permissionless blockchains. Leveraging the advantages of tokenisation, they offer some attractive technological features for digital finance. For example, they can be integrated with smart contracts that enable programmability and atomic settlement (see eg Adrian (2026)). Programmability means encoding rules and logic so that actions – such as releasing payments – execute automatically when predefined conditions are met. Atomic settlement means that delivery and payment occur simultaneously, eliminating counterparty risk.

Second, how are stablecoins used? They can serve several purposes. A key one is to provide an on- and off-ramp for the crypto ecosystem, where they can support complex trading strategies and serve as collateral. Stablecoins also have potential as a means of making cross-border payments, as they can bypass some of the frictions in conventional payment rails. Proponents contend that they are cheaper and faster than bank transfers.[1]

Stablecoins can also be attractive as a means to gain access to the US dollar, and potentially other foreign currencies, as a store of value, particularly in emerging market and developing economies (EMDEs) with vulnerable local currencies. This is because they are generally easily accessible through "hosted" wallets on exchanges, or in "unhosted" (ie self-hosted) wallets.[2] In principle, anyone with an internet-connected device can access them.[3]

Given these various use cases, is it likely that society will embrace greater stablecoin adoption?

Despite phases of strong growth, stablecoin market capitalisation remains small. As of early April 2026, the global market cap amounted to around $315 billion. This is dwarfed by the roughly $8 trillion held in bank deposits in the United States alone. Still, the market has remained quite resilient against the recent rout in the broader crypto markets.

While stablecoin transaction volumes seem large – some $35 trillion annually in 2025 – their use for real economy transactions is modest. For example, payment-related flows over the course of 2025 were estimated at around $390 billion. This is a tiny fraction of transaction volumes in the traditional payment system.[4] In particular, stablecoins have found limited commercial use, such as for firms' payments within global value chains. Instead, they have primarily served for on-chain trading within the crypto ecosystem. To a limited extent, they also serve as an offshore store of value in EMDEs for users seeking US dollars – as about 98% of stablecoins are denominated in dollars.

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[1] Transfers of stablecoins between two addresses on a public blockchain are generally quite fast and possible around the clock. Depending on the blockchain, the fees may be much lower than for bank transfers. But a comprehensive comparison of costs and transaction times needs to take account of the additional steps involved, such as fees at on- and off-ramps, eg crypto trading platforms. In practice, these costs can be higher than for bank transfers, especially for smaller transactions.

[2] "Wallet" refers to an application or device that is used to store the private keys that provide access to the cryptoasset. Hosted wallets are typically held by a third-party provider (eg a crypto exchange), which generally performs know-your-customer (KYC) checks. By contrast, unhosted wallets are held by the user directly, generally without KYC.

[3] Other potential use cases relate to trade finance and multinational firms' cash management (see Barr (2025)).

[4] See Aldasoro, Frost and Ito (2026), using data from Visa and Allium.

Experience so far indicates that well constructed regulatory frameworks have not, on their own, led to greater stablecoin use. The modest size of the non-US dollar fiat stablecoin market is a case in point. For example, despite a carefully designed regulatory framework here in Japan, yen-pegged stablecoins have a market capitalisation of less than 0.01% (1 basis point) of that of US dollar-pegged coins. Based on these trends, "stablecoinisation" appears distant. Indeed, the strongest growth has come from Tether's USDT, which does not comply with the stablecoin laws of major jurisdictions. This raises the question of whether even innovation-friendly, dedicated regulatory frameworks can be undermined by the ability to transact outside any regulatory perimeter.

Design choices also influence adoption. The two largest issuers, Tether and Circle, exhibit features that make them resemble securities rather than money. In particular, they impose redemption frictions, leading to frequent deviations from par in secondary markets (Kosse et al (2023)). In this respect, they currently operate more like exchange-traded funds than like money. Granted, this need not undermine their usefulness as a store of value, as currently observed in some EMDEs. However, to play a more central role in the financial system, stablecoins would need to evolve into a reliable means of payment.

Stablecoins and "moneyness"

What requirements would stablecoins have to meet to qualify as an alternative means of payment? I want to discuss two important features here: singleness and interoperability.

Singleness – that is, exact singleness – means that different forms of money are perfectly substitutable at par across financial intermediaries and platforms. A payee expecting to receive 1,000 yen does not have to check whether the payer is transferring this amount from an account at MUFG, SMBC, Mizuho or any other financial intermediary. This is underpinned by settlement in central bank money in the two-tier system and supported by robust regulation and supervision of private money issuers (BIS-CPMI (2024)). Singleness overcomes adverse selection in payments by ensuring that one yen, dollar or euro is worth the same as any other.

Interoperability means that users can send and receive funds seamlessly across platforms and networks, with certainty of finality. For example, a customer can seamlessly transfer funds from an account in one bank in Japan to another knowing that, once implemented, the transaction is final and cannot be reversed without consent. This setup overcomes any need for ad hoc bridges to connect platforms, pre-funding or additional conversion steps.

How do current stablecoins measure up along these two dimensions?

Take singleness first. Unlike bank transfers, stablecoin transactions do not settle on the central bank's balance sheet. Without settlement in – or an undisputable backing by – central bank money, payments at par are not assured. By contrast, in the two-tier banking system, all payments go through at par because they can be settled with central bank reserves. In practice, deviations from par are modest for major stablecoins and, as such, may appear harmless. Yet confidence shocks can widen discounts abruptly and, when they do, users may refuse to accept certain stablecoins, as seen on several occasions in the past.

At the same time, enforcing seamless redemption at par without a solid anchor exposes stablecoins to run risk. This raises questions about whether and under what conditions stablecoins should benefit from safeguards comparable with deposit insurance schemes, have access to liquidity backstops such as those provided by central banks and be subject to robust resolution arrangements (see also Bailey (2025)). I will return to this issue in a moment.

Next, consider interoperability. Stablecoins inherit the constraints of the infrastructure on which they circulate. Public, permissionless blockchains face significant incentive compatibility constraints. To provide blockchain validators with sufficient rewards to secure the network, protocols ration block space

to maintain sufficient rents. As congestion bites and transaction fees rise, users can be priced out of the market. Activity migrates to alternative chains and to new layers built on top of the base chains, leading to a patchwork of networks (Boissay et al (2022); Shin (2026)). In this environment, the "same" stablecoin token, say USDC, on one chain (eg Ethereum) is not inherently interoperable with the same token on another chain (eg Solana). As a result, assets and liquidity become fragmented. Mechanisms to overcome these frictions, like bridges between blockchains, introduce their own set of risks (Eidan et al (2026)).

Together, these features undermine the network effects that are key to money – the use of money begets its acceptance, and acceptance begets wider use. It is therefore conceivable that under current designs stablecoins remain a "niche" instrument. More fundamentally, singleness ultimately relies on the monetary anchor of the central bank. While the crypto ecosystem embraces decentralisation and rejects the need for a public trust anchor, stablecoins attempt to import credibility from public money while operating outside the established settlement system. This creates a tension that is not easily resolved.

I would also like to recall another concern that relates to the underlying infrastructure. There are important operational risks, not least in terms of cyber risks. While banks also face cyber threats, for stablecoins these risks reach into the very heart of the system – the validators that confirm transactions and the mechanisms that provide finality on public, permissionless blockchains (Aronoff et al (2026)).

Macro-financial implications of broader stablecoin adoption

Let me recap what I have argued so far. The growth in stablecoin market capitalisation shows that there is a demand for money-like instruments in the crypto ecosystem. But existing stablecoin arrangements and design features fall short of the requirements for a widely accepted and used payment instrument. Enhanced design arrangements and robust liquidity backstops would probably be necessary for these instruments to play a more meaningful role in the financial system.

What would be the macro-financial and policy implications if widespread stablecoin adoption occurred, despite their current drawbacks? In my view, if stablecoins were to compete meaningfully with conventional forms of money, there would be material consequences for credit provision, financial stability, financial integrity, monetary policy and fiscal policy. However, these effects would depend crucially not only on the extent of stablecoin use, but also on the composition of issuers' reserve assets and the regulatory environment. For example, the risk of stablecoin runs would be much reduced if regulators were to grant non-bank stablecoin issuers access to deposit insurance-type arrangements or central bank liquidity facilities. Naturally, such access would need to be underpinned by prudent regulatory safeguards.

Let me discuss these issues in turn.

Credit provision

Consider first how widespread stablecoin adoption could affect credit provision.

If firms and households shifted from bank deposits to stablecoins at scale, banks would increasingly rely on wholesale funding, which is costlier and potentially less stable. Banks might make up for the change in profitability by passing on the higher funding costs to households and firms through higher lending rates, and the supply of bank credit might fall.

There are at least two equilibrium effects that could mitigate, or even prevent, a contraction in credit supply. First, stablecoin issuers may hold bank deposits, thereby limiting the contraction in aggregate deposits. That said, the distribution of deposits across the banking sector would probably still change, leaving some individual banks with less access to deposit funding. Moreover, even if stablecoin issuers were to hold bank deposits as reserve assets, these deposits may prove a flightier source of funding for banks than conventional retail deposits (Wang (2025)). A second way that credit contraction can be

mitigated is that stablecoin issuers may buy government bonds from banks, hence freeing up lending capacity for banks with sufficient liquidity headroom.

Shifts from bank deposits to stablecoins may also be less pronounced if stablecoin holdings remain unremunerated and the opportunity cost of holding them is high, such as during periods of high interest rates, and if prohibitions on paying interest on stablecoins can be enforced.

What about the composition of credit provision? As is often noted, stablecoins resemble narrow banks. Conventionally, a prototypical narrow bank takes deposits and backs them with safe, liquid assets, such as central bank reserves or government debt. A shift towards narrow banking through stablecoins would loosen the tight link between deposit-taking and lending that exists in a fractional reserve system. As a result, a larger share of credit supply to the private sector would have to be provided by non-bank financial institutions (NBFIs) to sustain the level of credit provision.

Financial stability

This shift would also have financial stability implications.

Narrow banks are generally considered more resilient to runs than their counterparts in a fractional reserve system. However, some forces go the other way. Synergies between deposit-taking and lending, which often provide a liquidity hedge during crises, could be lost (Kashyap et al (2002)). Since narrow banks have less capacity to expand their balance sheets elastically to create liquidity, the financial system's vulnerability to liquidity shocks could increase. A larger share of lending by NBFIs could also make lending more procyclical, given these institutions' greater sensitivity to changes in credit spreads and market liquidity. Indeed, empirical evidence shows that NBFIs have cut back on lending more aggressively than banks during past financial crises in borrower countries (Aldasoro, Doerr and Zhu (2025)). While procyclicality varies across different types of NBFIs, less stringent regulation than in the banking sector could expose additional vulnerabilities under stress.

Seen through this lens, there are clear parallels with trends in the NBFI sector that predate stablecoins. As past episodes of NBFI turmoil exemplify, risks of runs and fire sales become prominent when redemption promises are tested and market liquidity wanes. Time and again, this has entailed a role for central banks in acting as market-makers of last resort. Central bank intervention has been necessary to contain systemic risks originating outside the banking sector, just as it has been necessary to contain systemic risks emanating from banks numerous times in the past.

Run risks that are present for NBFIs can also arise for stablecoins, despite their resemblance to narrow banks. Runs on stablecoins could put broader financial stability at risk, given their links to the traditional financial sector and conventional financial instruments.

One channel through which risks may materialise is by triggering fire sales of stablecoins' reserve assets, which could impair the functioning of the underlying markets (Goel et al (2026); Ahmed and Aldasoro (2025)). If stablecoins need to draw down on their bank deposits to meet large redemptions, financial stress could spread rapidly to the banking sector and then to other parts of the financial system. While fees and other redemption restrictions on stablecoins can reduce this risk, they detract from stablecoins' moneyness, making them less suitable for payments to meet households' and firms' transaction needs. As I noted earlier, deposit insurance-type schemes or liquidity backstops could also help to mitigate run risks. However, such arrangements would have to be accompanied by robust regulatory safeguards to prevent moral hazard.

Financial integrity

Another way current stablecoins differ from the two-tier system is in their implications for financial integrity. I see this as the major concern regarding stablecoins.

The circulation of stablecoins on public, permissionless blockchains and with unhosted wallets – which are largely outside the regulatory perimeter and without know-your-customer (KYC) checks – limits the effectiveness of existing approaches to anti-money laundering and combating the financing of terrorism (AML/CFT).

In the traditional financial system, the duty of enforcing compliance with AML/CFT falls on financial intermediaries, such as banks. But in the crypto ecosystem, validators are the ones who are jointly in charge of keeping a record of the transactions on the blockchain. While transactions on the blockchain are publicly visible, entities are only identified with addresses. The same features that make crypto and stablecoins easily accessible are also attractive to illicit actors. While major stablecoin issuers do regularly freeze and burn funds held by known illicit entities, those entities continue to develop new ways to move funds in ways that are difficult to detect.

This means that, in a world where traditional financial intermediaries and stablecoins co-exist, bespoke measures are needed to fend off financial integrity risks (Aldasoro, Frost, Lim, Perez-Cruz and Shin (2025); Barr (2025)). One way this could be done is by enforcing comprehensive compliance checks at the crypto ecosystem's points of contact with the banking system – the so-called on- and off-ramps. Artificial intelligence-assisted monitoring of the history of blockchain transactions can support assessments of whether stablecoins have possibly been used in illicit transactions. This is particularly important as some estimates suggest that stablecoins now account for most illicit transactions within the crypto ecosystem (Chainalysis (2026)).

Monetary policy

Let me next discuss the implications for monetary policy.

Widespread stablecoin adoption could affect monetary policy transmission in various ways. The net impact is not clear-cut. Flows from retail deposits to stablecoins, which increase banks' reliance on wholesale funding, could strengthen pass-through from policy changes to banks' funding costs and lending rates (Altavilla et al (2026)). By contrast, if stablecoins are unremunerated, changes in policy rates will not directly affect local currency stablecoin holders, potentially weakening transmission. These developments could also heighten uncertainty about monetary transmission at a time when central banks already face elevated uncertainty on other fronts.

The key challenges to monetary policy are posed by the shifts to foreign currency (FX) stablecoins, especially in EMDEs. As I mentioned earlier, we have already seen some use of US dollar stablecoins as stores of value outside the United States.

This type of FX stablecoin demand echoes past episodes of financial dollarisation, in which households held either FX deposits or FX cash as stores of value.[5] Such dollarisation often proved very persistent. Historically, deposit dollarisation – the share of foreign currency deposits in total deposits – has tended to remain high even after the end of high inflation episodes and for several years following currency crises (Hofmann, Mehrotra and Paulick (2026)).

FX stablecoins could further challenge monetary transmission and monetary sovereignty if transactions, prices and wages begin to be set increasingly in foreign currencies – a phenomenon sometimes referred

[5] Financial dollarisation can also involve financial contracts, such as loans, being denominated in FX. This can lead to significant vulnerabilities when borrowers do not have FX income. If greater use of (FX) stablecoins leads also to greater FX lending, this would be a relevant vulnerability for authorities to consider.

to as "real dollarisation" (Levy-Yeyati (2021)). In this case, stablecoins would expand their role, serving not only as a store of value, but also as the medium of exchange and unit of account.[6]

What can central banks do to avoid this? It is important to note that a shift to FX stablecoins would probably be a symptom of broader macro-financial weakness, rather than its root cause. Maintaining domestic and financial stability can therefore go a long way towards keeping such threats to monetary sovereignty at bay. Beyond monetary policy, maintaining trust in the domestic currency by ensuring sustainable public finances remains key (Bell et al (2024)).

Some of these implications are familiar for central banks that have historically conducted monetary policy under dollarisation. But dollarisation through stablecoins could differ from past instances of dollarisation in several key respects.

For one, dollarisation through stablecoins could gain traction in countries that restrict residents' access to conventional US dollar accounts.

A second, and related, dimension is that the demand for FX stablecoins can open up new financial transmission channels. For example, recent research shows that large inflows into US dollar stablecoins not only lead to large gaps – or parity deviations – between the cost of acquiring dollars via stablecoins and via the spot FX market but also weaken the local currency (Aldasoro, Beltran and Grinberg (2026)). In this way, crypto and conventional FX markets become closely interlinked.

A third way stablecoin dollarisation could make a qualitative difference is that capital flows could become more volatile than those that have occurred between regulated financial systems. Moreover, the size of capital flows could increase. This is in part because capital flow management measures, implemented through regulated financial intermediaries, have constrained such flows in some countries. Stablecoins could make it easier to evade capital controls and thus allow for both greater inflows (surges) in good times and outflows (capital flight) in times of stress.[7]

To be sure, putting regulations on stablecoin use between residents and non-residents could help to prevent the evasion of capital controls and FX regulations. Many authorities have done so, especially in EMDEs. However, such controls are prone to leakage. Again, this is due to the nature of stablecoins, under which cross-border transactions often occur outside the sphere of the regulating jurisdiction.[8]

Some of these effects on monetary and regulatory policy through FX stablecoins may be less important in advanced economies, such as here in Japan. But they could be quite important for EMDEs with a history of price or currency instability (Auer et al (2025); Aldasoro, Frost and Ito (2026)). They are also important for monetary authorities as they may undermine policy autonomy.

Fiscal policy

Something of immediate relevance for advanced economies is the fiscal implications of stablecoins' holdings of government debt.

There are some ways in which increased stablecoin use could increase fiscal space. Major stablecoin issuers have already become key investors in US Treasury bills. The increased demand for government debt could lower sovereign borrowing costs, at least at the margin, if stablecoins' demand for government bonds outweighs the reduction in demand by other market participants. This could increase

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[6] See also Cipollone (2026).

[7] Flows could also increase if new payment rails through stablecoins reduce frictions in cross-border payments. See Reuter et al (2025).

[8] The use of virtual private networks (VPNs) and peer-to-peer marketplaces can also facilitate the evasion of regulations.

fiscal space in the near term and is likely to be reinforced when there is foreign demand for domestic currency stablecoins. Such foreign demand could also mitigate the crowding out of credit provision to the private sector induced by flows from bank deposits to stablecoins in the domestic economy (Hofmann, Kaldorf and Rottner (2026)).

But there are also ways in which stablecoin use might shrink fiscal space. For instance, to the extent that stablecoins replace cash holdings, seigniorage could shift from the public to the private sector. In addition, the nature of public, permissionless blockchains on which stablecoins circulate opens up new avenues for tax evasion. And runs on stablecoins could trigger forced sales and dislocations in government bond markets.

For all of the macro-financial implications of stablecoins I have outlined, stablecoin design choices play an important role. Evolving regulatory requirements and supervisory expectations will shape the parameters under which stablecoin issuers will adjust their reserve pools and liquidity risk management.

Conclusions

Let me conclude with some reflections on policy aspects and the path forward.

As I have described, stablecoins present both opportunities and challenges. On the one hand, they incorporate the technological advances of tokenisation, such as programmability and atomic settlement. They also have the potential to significantly enhance cross-border payments and provide convenient access to the US dollar and other foreign currencies as stores of value. On the other hand, stablecoins pose significant macroeconomic and financial challenges, including their potential effects on credit supply, financial stability and monetary and fiscal policy. Most importantly, stablecoins raise serious risks for financial integrity and can facilitate regulatory circumvention, increasing dollarisation risks for EMDEs.

These challenges require progress along two dimensions.

First, it is important to explore technological solutions and regulatory approaches to mitigate the risks posed by current stablecoin arrangements. Some of these risks can be largely addressed with appropriate policy measures, such as ensuring redemption at par through robust regulation and supervision, implementing coin holder protections, considering access to central bank liquidity under strict safeguards and establishing effective resolution mechanisms. These measures can reduce run risks and enhance resilience, provided they are supported by strong risk management practices that avoid moral hazard.

However, certain weaknesses are inherently more difficult to resolve. For instance, the circulation of stablecoins on public, permissionless blockchains complicates efforts to combat money laundering and the financing of terrorism, raising financial integrity risks. Additionally, fragmentation across blockchains impedes interoperability and network effects.

Second, efforts should focus on integrating the technological advancements provided by stablecoins into the current two-tier financial system. For example, central banks are exploring the use of tokenised deposits on private, permissioned platforms, with an emphasis on sound settlement, enhanced integrity and robust interoperability across networks. Central bank money can serve as an anchor of trust, helping to mitigate the fragmentation and integrity risks that would arise in a purely decentralised monetary system.

In this context, the BIS has laid out an ambitious vision for a "unified ledger" (BIS (2023, 2025)), and notable progress has been made in turning this vision into reality. One example is Project Agorá, where central banks, including the Bank of Japan, are collaborating with the private sector to explore the application of tokenisation to improve cross-border payments.

As we move forward together on the journey towards the future monetary system, it is crucial for policymakers to foster and support innovation while preserving trust in money. Achieving this requires a holistic perspective, with careful consideration of how different design choices influence the broader macroeconomic and financial environment at both domestic and global levels. As regulatory approaches are refined, I also want to emphasise the critical importance of international cooperation. Without it, divergent regulatory frameworks for stablecoins across jurisdictions could lead to severe market fragmentation or enable harmful regulatory arbitrage.

Thank you.

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