

Anchoring trust in money: innovation beyond stablecoins

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The monetary and financial system is changing fast. Digital innovation is reshaping the payment landscape, promising faster and cheaper ways to move value and record claims. Private tokens, such as stablecoins, have expanded their presence and aspire to provide money-like functions. These developments are not merely technological advancements. They raise the broader question of how to preserve trust in money in the digital age. The central policy message of Chapter III of the Annual Economic Report is that it requires coordinated efforts by policymakers along two dimensions: addressing the weaknesses in today's stablecoin arrangements and bringing the benefits of tokenisation into the trusted two-tier system anchored in central bank money.

Trust is the foundation of money. The two-tier system has delivered that trust. It does so by combining the central bank's role as issuer of the safest form of money with the private sector's role in serving households and firms. What matters most is that money is accepted with no questions asked. This is the outcome of sound institutional arrangements and supervision. They ensure coordination on a common unit of account and that all forms of money are redeemable at par, liquidity is supplied elastically and integrity is upheld in everyday use. These properties allow for the powerful network effects of money to arise – the usage of money begets acceptance and acceptance begets wider usage. They are the yardstick for judging new instruments that aspire to become money and the networks that support them.

Digital innovation, stablecoins and the quest for new forms of money

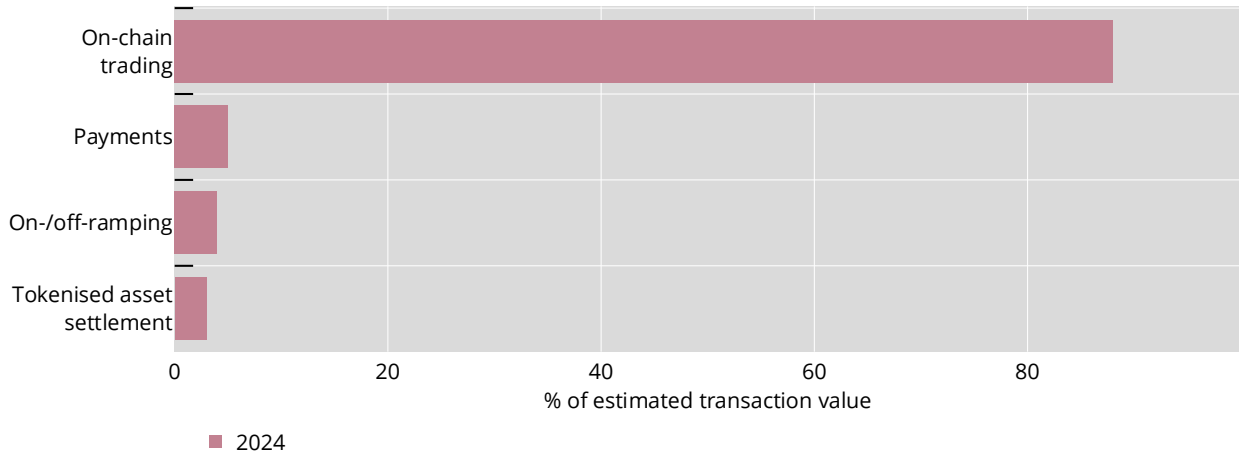
The current system is robust. But it struggles with fragmentation across legacy systems, increasing costs, rising operational risks and limited competition. Technological innovations strive to overcome the frictions of today's financial system. Innovations include targeted upgrades to existing financial infrastructures as well as proposals to rebuild the underlying "rails". Among the latter, distributed ledger technology, or DLT, and tokenisation could embed money and assets in programmable environments that provide atomic settlement. It is in this context that stablecoins have emerged as privately issued money-like instruments.

Stablecoins make a bold promise. They claim to deliver fast, programmable transfers on new rails, including for cross-border payments. And they aspire to money-like functionality while leveraging existing trust in fiat currency. How have they performed thus far?

Stablecoins are used mainly inside the crypto ecosystem. Their primary role has been for trading and liquidity routing on blockchains – or “on-chain” (Graph 1). They also perform a secondary store of value role. Particularly in some emerging market and developing economies, they provide exposure to the US dollar. Major stablecoin issuers’ reserve assets, in turn, are concentrated in US dollar instruments. These include Treasury bills, bank deposits and reverse repos.

Stablecoin use is concentrated in on-chain trading

Graph 1



Sources: Boston Consulting Group (BCG); BIS.

Scale remains limited, while market concentration remains high. Stablecoin market capitalisation is currently around \$320 billion, dwarfed by bank deposits in the trillions. And it is highly concentrated in two US dollar-pegged coins. Despite regulatory advances in some jurisdictions, non-USD stablecoin issuance remains a small fraction compared with that of USD coins.

Today’s stablecoin arrangements face a number of shortcomings. First, pseudonymous transfers on public permissionless networks hinder the prevention of illicit finance and create avenues for evasion of rules. Freezing of stablecoins by issuers based on individual controls and blockchain analytics can assist in high-profile cases. But they cannot substitute for routine, large-scale controls embedded at the point of use. Consistent, internationally coordinated frameworks to ensure integrity are therefore essential.

Second, secondary market prices of stablecoins deviate from par, especially in stress. Redemption frictions are pervasive. This makes achieving singleness illusory.

The underlying infrastructure matters as much as the token. Public permissionless blockchains foster open access but face congestion, fragmentation and governance challenges. Stablecoins circulate across a rising number of blockchains (Graph 2). Tokens issued across multiple chains become siloed versions with the same name. They cannot be transferred across chains except across brittle bridges or through ad hoc arrangements. This splinters network effects and undermines uniform acceptance.

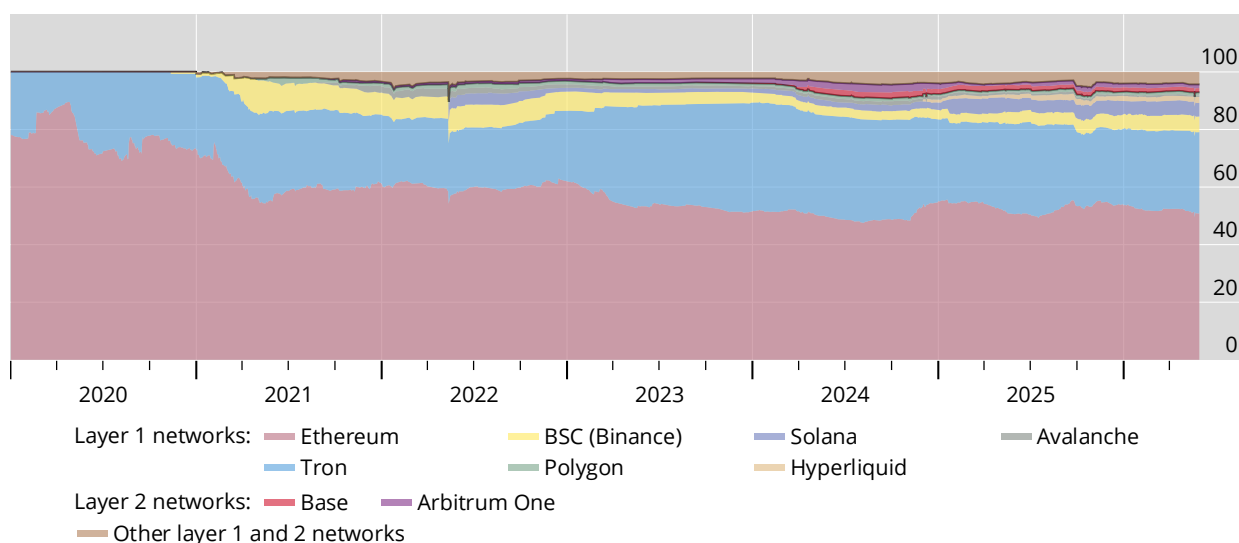
Ultimately, whether stablecoins evolve into money-like instruments or resemble securities, such as exchange-traded funds, depends on their design and regulation. Stablecoins that aspire to

perform money’s core functions – particularly at scale – require money-like design and regulation. That includes redeemability into central bank money at par at all times, anchoring in ring-fenced, high-quality and liquid reserves, and support by credible backstops and resolution regimes. Without these features, they are better regarded – and regulated – as security-like products that track reference assets. Even then, today’s constraints – fragmented, permissionless rails, congestion and limited interoperability – are likely to impede wide-scale adoption as a money-like instrument in the near term. This is because these constraints hinder network effects and compromise the singleness of money.

Stablecoin circulation across blockchains

As a percentage of US dollar-pegged stablecoin market capitalisation

Graph 2



Sources: P Hernández de Cos, “Stablecoins: framing the debate”, speech at a Bank of Japan seminar, Tokyo, 20 April 2026; DeFiLlama; BIS.

Macro-financial implications of stablecoins

Should stablecoins, despite their inherent limitations, become widely used, this could have several macro-financial effects. These will depend to a large degree on how regulation evolves. The reserve composition of stablecoins will shape the implications for bank funding, money markets, fiscal space and monetary policy. To make these considerations concrete, the chapter discusses three stylised scenarios, each assuming that issuers hold only one of the following reserve assets: bank deposits, government bills or central bank reserves.

The first-round balance sheet effects are instructive. When households buy stablecoins, retail deposits fall and are replaced by wholesale deposits from the issuer or by the sale of treasury bills to the issuer. They can also be replaced by a shift of central bank reserves from banks to the issuer if issuers can hold reserves at a central bank account. In each case, banks’ liquidity metrics weaken on average as funding becomes more wholesale and, in some cases, high-quality liquid assets decline.

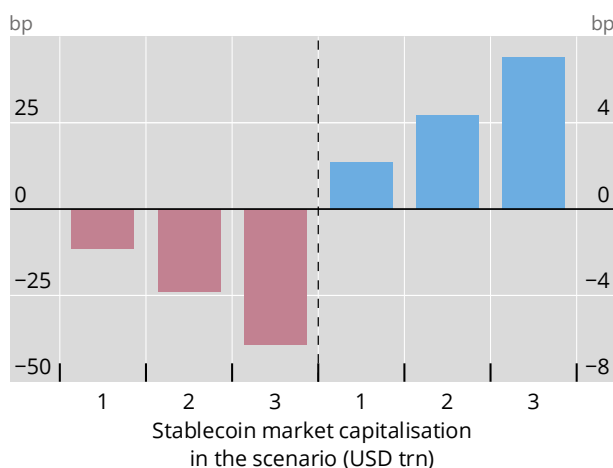
In a second round, bank funding mixes will adjust. A shift from granular retail deposits to concentrated wholesale liabilities raises banks' marginal funding costs. Banks are likely to reprice loans and tilt portfolios towards liquid assets to restore liquidity metrics. Distributional effects may weigh more on smaller banks, with potential headwinds for small and medium-sized enterprise lending.

The three scenarios entail different financial stability risks. In the government bill scenario, large stablecoin redemptions can trigger fire sales of treasuries and transmit stress to money markets. In the bank deposit scenario, bank stress could trigger a flight to stablecoins that amplifies outflows. In the central bank reserve scenario, stablecoins may be seen as close substitutes for reserves, increasing the risk of sharp liquidity reallocations in stress.

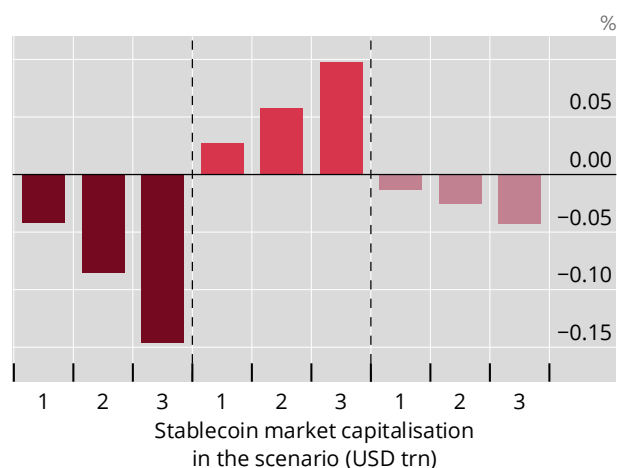
Quantifying the macroeconomic effects of stablecoin adoption¹

Graph 3

A. Short-term treasury yield declines and banks' funding costs rise²



B. Transmission channels suggest limited net output effects^{2,3}



Change in:
■ T-bill yield (lhs)
■ Deposit spread (rhs)

Output response:
■ Bank lending
■ Fiscal space
■ Net effect

¹ Simulations are based on a quantitative New Keynesian model with stablecoin issuers, calibrated to US data. For details, see Box D and the additional notes to Graph 5 in Chapter III of the BIS *Annual Economic Report 2026*. ² The model-implied impact on the shown macroeconomic variable for each of three scenarios for future total stablecoin market capitalisation (\$1 trillion, \$2 trillion and \$3 trillion). ³ Projected contributions of the bank lending and fiscal space channels to aggregate output, as well as the resulting net output effect.

Source: B Hofmann, M Kaldorf and M Rottner, "The macroeconomics of stablecoins", *BIS Working Papers*, no 1363, 2026.

The effects of stablecoin adoption on fiscal space depend on stablecoin design and the scale of adoption. When issuers hold government bills, persistent inflows can lower short-term sovereign yields and ease money market conditions in issuing jurisdictions (Graph 3.A). In a model calibrated on US data, the bank lending headwind outweighs the fiscal space tailwind on net, but the effect on output is modest even when stablecoins are widely adopted (Graph 3.B).

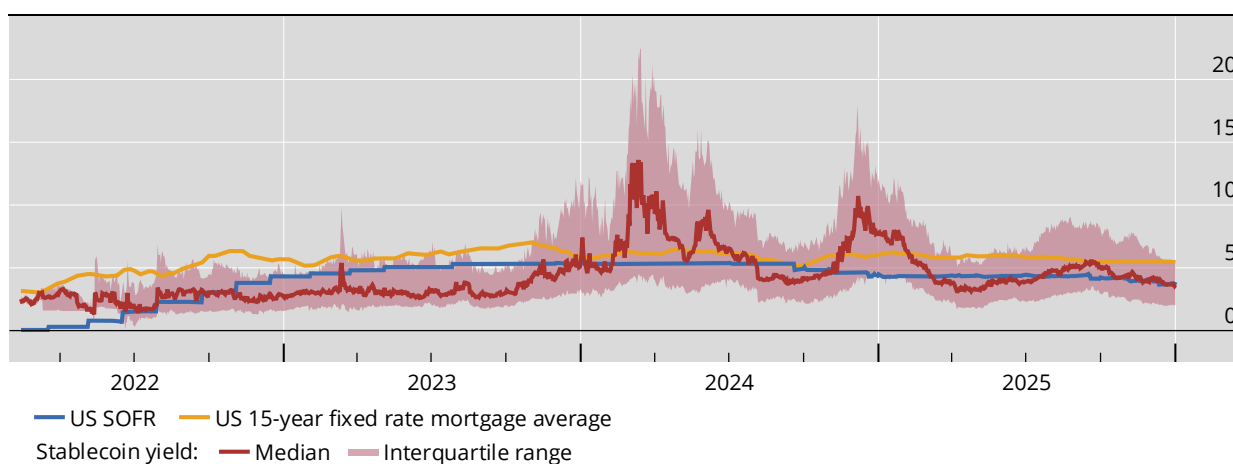
Monetary policy transmission could change in character. A more wholesale-funded banking system tends to exhibit faster pass-through from policy rates to lending rates, but with more dispersion across institutions. Where stablecoins are unremunerated, monetary policy also affects

holders via opportunity costs, which may dampen transmission. Yields on stablecoins can also be earned through decentralised lending pools. At present, however, these yields remain volatile and largely segmented from policy benchmarks (Graph 4). They move more with crypto-specific events than with changes in reference rates.

Limited pass-through of changes in interest rates to stablecoin yields from lending pools in decentralised finance¹

Annualised, in per cent

Graph 4



SOFR = secured overnight financing rate.

¹ For details, see the additional notes to Graph 6 in Chapter III of the *BIS Annual Economic Report 2026*.

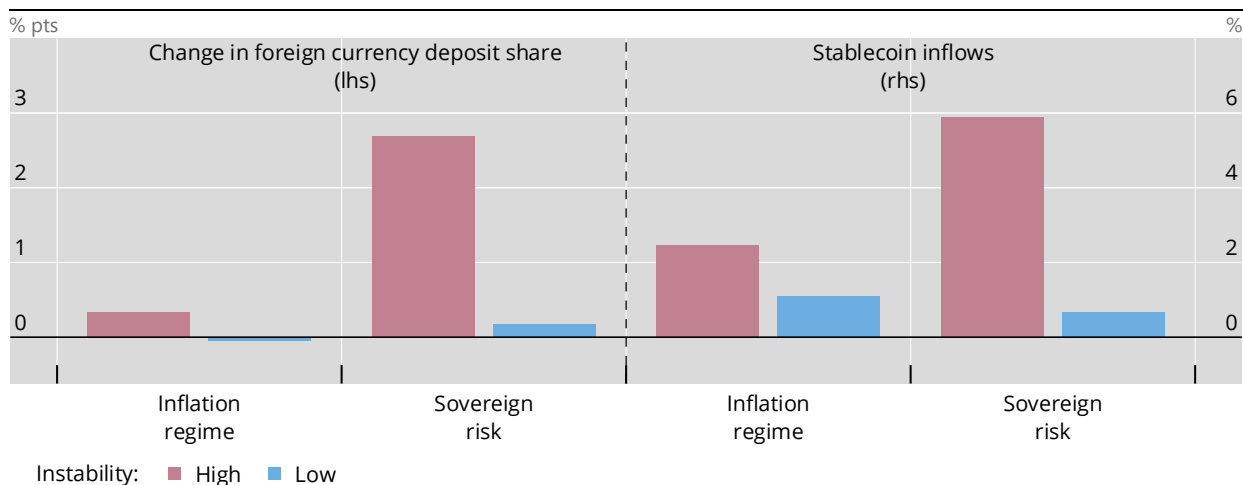
Sources: Federal Reserve Bank of St Louis; Bloomberg; CoinGecko; DefiLlama; BIS.

The effects of stablecoin adoption extend beyond the issuing jurisdiction. Cross-border use of stablecoins raises dollarisation risks. Foreign stablecoins provide round-the-clock access to foreign currency stores of value and might be especially attractive in more vulnerable emerging market and developing economies. Already, stablecoin inflows respond to macro instability, much like deposit dollarisation (Graph 5). If the past is any guide, such shifts to foreign currency may be quite persistent. While some countries have put in place controls on cross-border stablecoin use, restricting activity on public permissionless blockchains could prove far more challenging than imposing restrictions on regulated foreign currency deposits.

Monetary sovereignty could come under increasing pressure if stablecoins moved from stores of value into the settlement of real transactions. As the unit of account role of the domestic currency weakens, monetary conditions in the reference currency area exert a larger influence. That would curtail domestic monetary policy autonomy. This puts a premium on keeping domestic policy frameworks sound and domestic payment options efficient.

Stablecoins vs foreign currency deposits¹

Graph 5



¹ Average annual change in the foreign currency deposit ratio and average annual gross stablecoin inflows as a share of GDP in different macroeconomic environments. For details, see the additional notes to Graph 7 in Chapter III of the *BIS Annual Economic Report 2026*.

Sources: R Auer, U Lewrick and J Paulick, “DeFying gravity? An empirical analysis of cross-border Bitcoin, Ether and stablecoin flows”, *BIS Working Papers*, no 1265, 2025; J Ha, M Kose and F Ohnsorge, “One-stop source: a global database of inflation”, *Journal of International Money and Finance*, vol 137, 102896, 2023; B Hofmann, A Mehrotra and J Paulick, “Dollarisation and monetary control: what lessons for the rise of stablecoins?”, mimeo, 2026; M Kose, S Kurlat, F Ohnsorge and N Sugawara, “A cross-country database of fiscal space”, *Journal of International Money and Finance*, vol 128, 102682, 2022; E Levy-Yeyati, “Financial dollarization and de-dollarization in the new millennium”, Fondo Latinoamericano de Reservas, working paper, 2021; K Mueller C Xu, M Lehibb and Z Chen, “The global macro database: a new international macroeconomic dataset”, *NBER Working Paper*, no 33714, 2025; Chainalysis; BIS.

Moving towards the next-generation monetary system

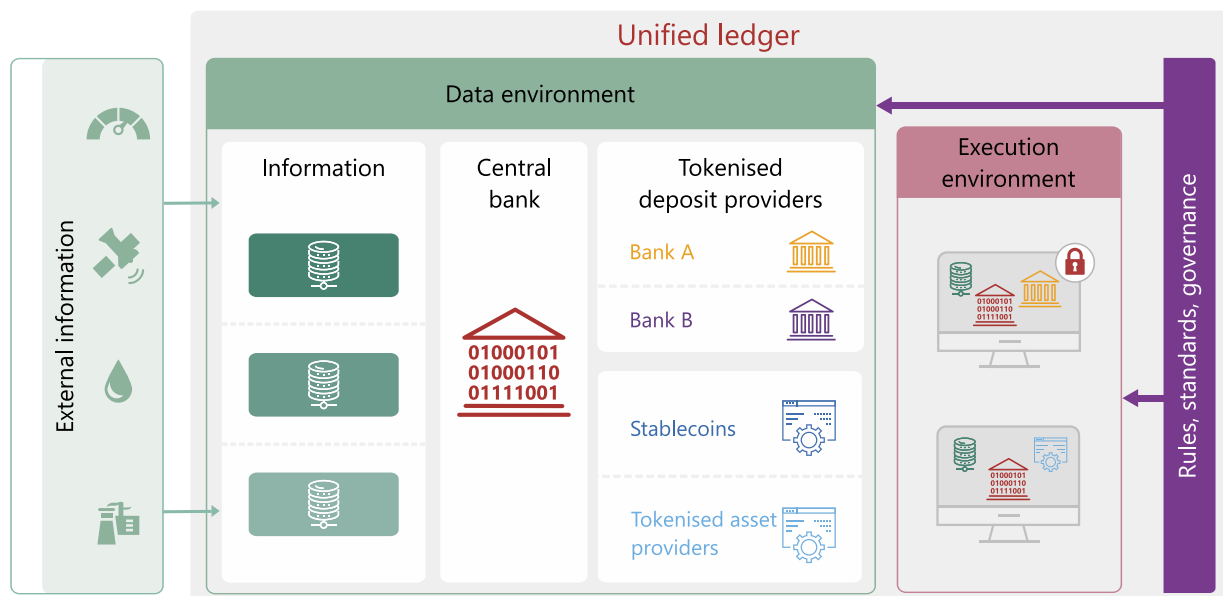
For central banks and other public authorities, the policy agenda has two tracks. The first is to strengthen safeguards around current stablecoin arrangements. Robust prudential and conduct requirements, strong anti-money laundering and countering the financing of terrorism (AML/CFT) controls, ring-fenced and high-quality reserves, clear redemption rights at par and credible resolution regimes are the building blocks. Internationally consistent approaches can reduce regulatory arbitrage and limit spillovers.

The second track is to bring tokenisation into the two-tier system. Tokenisation can align messaging, compliance checks and settlement into a coordinated, atomic transaction, reducing errors and delays. The public-private prototype Project Agorá shows that atomic, cross-currency settlement using tokenised deposits and central bank reserves under jurisdiction-specific governance is feasible. Integrity by design can be achieved by embedding pre-screening, sanctions checks and auditable trails while respecting data sovereignty.

A unified ledger anchored by central bank reserves can provide an organising principle for money in the digital era (Graph 6). Tokenised central bank reserves provide the trusted settlement medium and anchor singleness. Tokenised deposits build on the proven two-tier model where private innovation flourishes at the user interface. Together, they deliver singleness, elasticity and integrity on programmable rails. This ledger can support additional regulated private monies, provided that participation is conditioned on strong safeguards.

Unified ledger, anchored in central bank money, to host different forms of tokenised private money

Graph 6



The lock indicates that some operations may be performed on confidential encrypted data.

Sources: H S Shin, "A blueprint for the future monetary system", speech on the occasion of the BIS Annual General Meeting, 25 June 2023; BIS.

Practical design choices will determine success. Choices around the technical form of reserves, access and governance models, liquidity facilities and legal frameworks define how risks are managed and how network effects are harnessed. Interoperability and operational resilience are preconditions for scaling safely alongside legacy systems. In parallel, upgrades to today's systems – from extended real-time gross settlement system operating hours to interlinking fast payment systems – can deliver many complementary benefits of programmability without full tokenisation.

Conclusion

Let me conclude.

Digital innovation is opening new frontiers, but trust remains the foundation of money.

By addressing the weaknesses in current stablecoin arrangements and by bringing the advances of tokenisation into the two-tier system, authorities can shape the future of money to serve society. They can improve the old while enabling the new. Achieving this requires coordination across technical, legal and policy domains. Careful consideration needs to be given to how different design choices interact with broader macro-financial dynamics domestically and across borders. Given the global footprint of digital finance, deeper cooperation among authorities will be needed to support consistent, interoperable outcomes and thereby preserve global monetary and financial stability.