

Striking a balance: stablecoins and stability

di Katie-Ann Wilson

A clear-eyed perspective is crucial in the fast-moving – and frequently misunderstood – world of stablecoins

In the digital assets space, the clamour can be deafening. A constant stream of headlines and whitepapers promises or dismisses a new financial frontier, with stablecoins at its heart. But for every genuine innovation, there is a speculative frenzy breeding misperceptions and friction across participants. It's a landscape of immense potential, sometimes obscured by the very noise it generates.

Navigating the real potential of stablecoins demands clarity, expertise and a sober perspective. Drawing on the collective wisdom of OMFIF's Digital Monetary Institute and its members, this edition of the Journal serves as a candid discussion of stablecoins and their implications for the financial system.

The Journal tackles three pervasive misconceptions head-on. First, Marcelo Prates from Stellar Development Foundation challenges the idea that stablecoins undermine the 'singleness of money', by debunking the idea itself. He argues that the 'singleness of money' in bank deposits only holds because governments step in with bailouts and guarantees, as seen in the 2023 case of Signature Bank.

In a similar vein, Accenture's Ousmène Mandeng re-writes the purported claim by top US Treasury officials and other media that stablecoin demand for short term US Treasuries presents a magic bullet to lower US government borrowing costs. Many stablecoin transactions simply substitute for transactions in other mediums that already involve Treasury securities not necessarily guaranteeing an increase in net demand.

Oracle's Mark Rakhmievich and Giesecke+Devrient's Daniel Nagy argue against the prevailing discourse that different forms of tokenised money are competing for dominance. Rakhmievich writes that 'The digital currency debate has often been

framed as a zero-sum contest. CBDCs versus stablecoins versus deposit tokens. But in practice, the monetary future is shaping up to be ‘all of the above’.

With multiple types of money also comes a redefinition of what we have come to understand as money, writes Thibault Pelé from Worldline. While we must now look at money as a ‘portfolio of products’ the coexistence of different forms of money is nothing new. What categorises this new epoch is programmability enabling executing logic, not only moving value.

However positive these developments may seem, a critical contradiction lies amid as highlighted by Christian Catalini of Lightspark and the Massachusetts Institute of Technology Cryptoeconomics Lab. He warns, ‘even when a technology has a decentralising force, economies of scale in complementary resources, brand or distribution inevitably drive concentration’. Stablecoin issuers are not guaranteed to remain neutral. They could evolve into closed-loop platform operators, using their branded networks to capture transactional revenue ultimately undermining the interoperability that digital assets promised to deliver.

The future of stablecoins ultimately hinges on how they are regulated. Central banks and policy-makers are grappling with their implications for financial stability and monetary sovereignty. In the Journal, Jürgen Schaaf from the European Central Bank represents this cautionary central banker viewpoint, noting, ‘Should dollar stablecoins become widely used in the euro area... zone, the ECB’s control over monetary conditions could be weakened’.

Central banks face critical market structure risk. Because stablecoins can serve as a settlement asset for blockchain-based finance, the debate around wholesale cash settlement has come to the fore. However, as Hedera’s Isadora Arredondo points out, the tension remains because central banks would prefer their own tokenised central bank reserves for this function.

Bridging common understanding between the public and private sectors on these issues is central to the Digital Monetary Institute’s purpose. The Journal contributes to that mandate by providing expert analysis that gets to the heart of the matter, anticipates positive breakthroughs, and illuminate risks. We hope it acts as a crucial tool to help build a shared vision for the future of money.