The Future of Money:

What Stablecoins Mean for Consumers and Economies

Jianping Zhou, PhD

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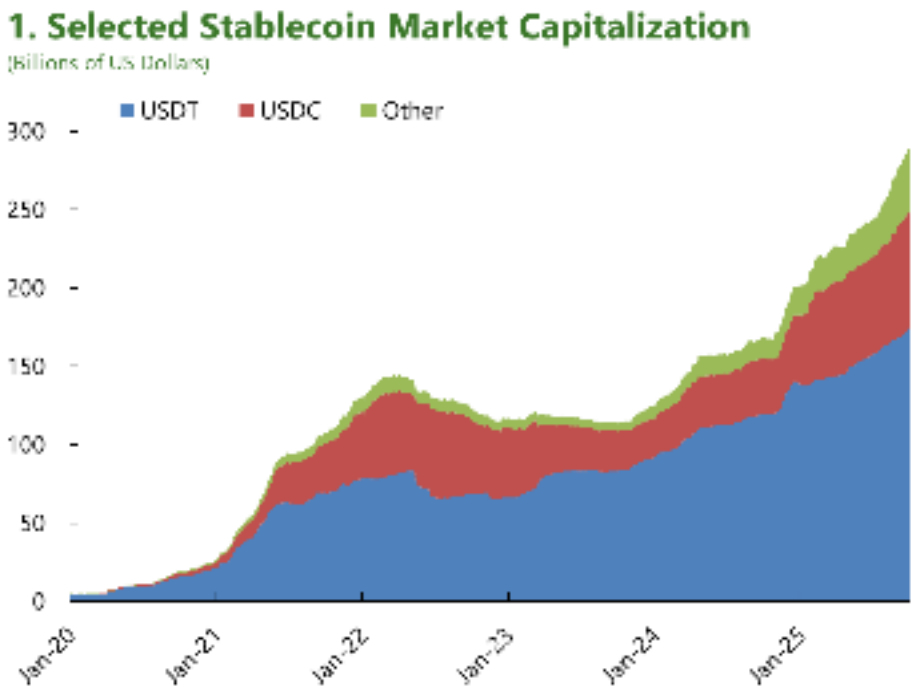
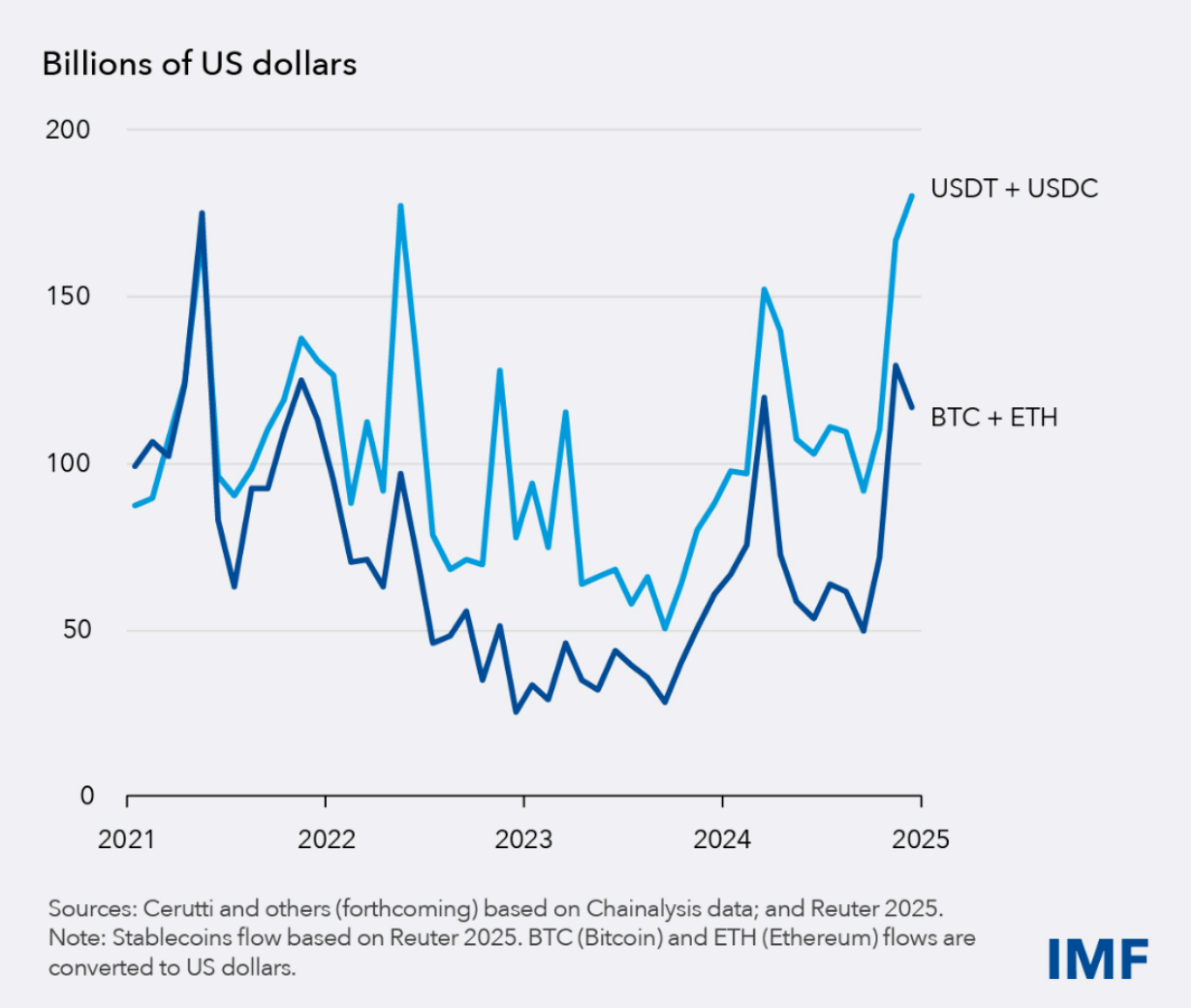
Recent market developments: a snapshot

Stablecoin issuance has doubled over the past two years.
Most stablecoins are denominated in US dollars
The two largest stablecoins, USDT (issued by Tether) and USDC (by Circle) account for about 90% of the market.



Source: IMF MCM DP 2025 (based on CoinGecko and IMF staff calculations).

Current use cases focus on crypto trades, but Stablecoins' cross-border payment flows are increasing



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Outline

- Basics - What are Stablecoins?
- How do Stablecoins compare with Bitcoin, CBDCs, and Money Market Funds (MMFs)?
- Why do Stablecoins matter for consumers and economies (key benefits and risks)?
- How can individuals invest in Stablecoins?
- What are the recent policy and regulatory developments?

- Objective: provide a survey of market and policy developments and their historical context

Definitions and Concepts

1. Traditional Ledger (Centralized Ledger)

A single, authoritative record of transactions maintained and controlled by one central entity (e.g., a bank, payment processor, clearinghouse)

Users must trust the central operator to maintain accurate records

Fast within institution; slower cross-institution

2. Blockchain

A distributed ledger (DLT) that records transactions publicly and immutably.

No single owner or central authority

Examples: Bitcoin, Ethereum, Solana

3. Digital money

Any form of money that exist electronically, not in physical form (like cash)

Recorded either on centralized ledger (banks) or decentralized ledger (blockchain)

Examples: bank deposits, CBDCs, stablecoins, bitcoin

4. Tokens

Digital assets issued on blockchains.

- **Cryptocurrencies** (e.g., BTC , ETH)
- **Stablecoins** (e.g., USDC, USDT)

4. Tokenization

A process of recording claims on real or financial assets that exist on a traditional ledger onto a programmable platform;

Enables integration of messaging, reconciliation and asset transfer into a single, seamless operation., thus represents the next logical progression in the evolution of the monetary and financial system

5. Smart Contracts

Self-executing code stored on a blockchain.

Replace intermediaries (banks, clearinghouses, platforms)

Automatically enforce rules (e.g., lending, trading, insurance payouts)

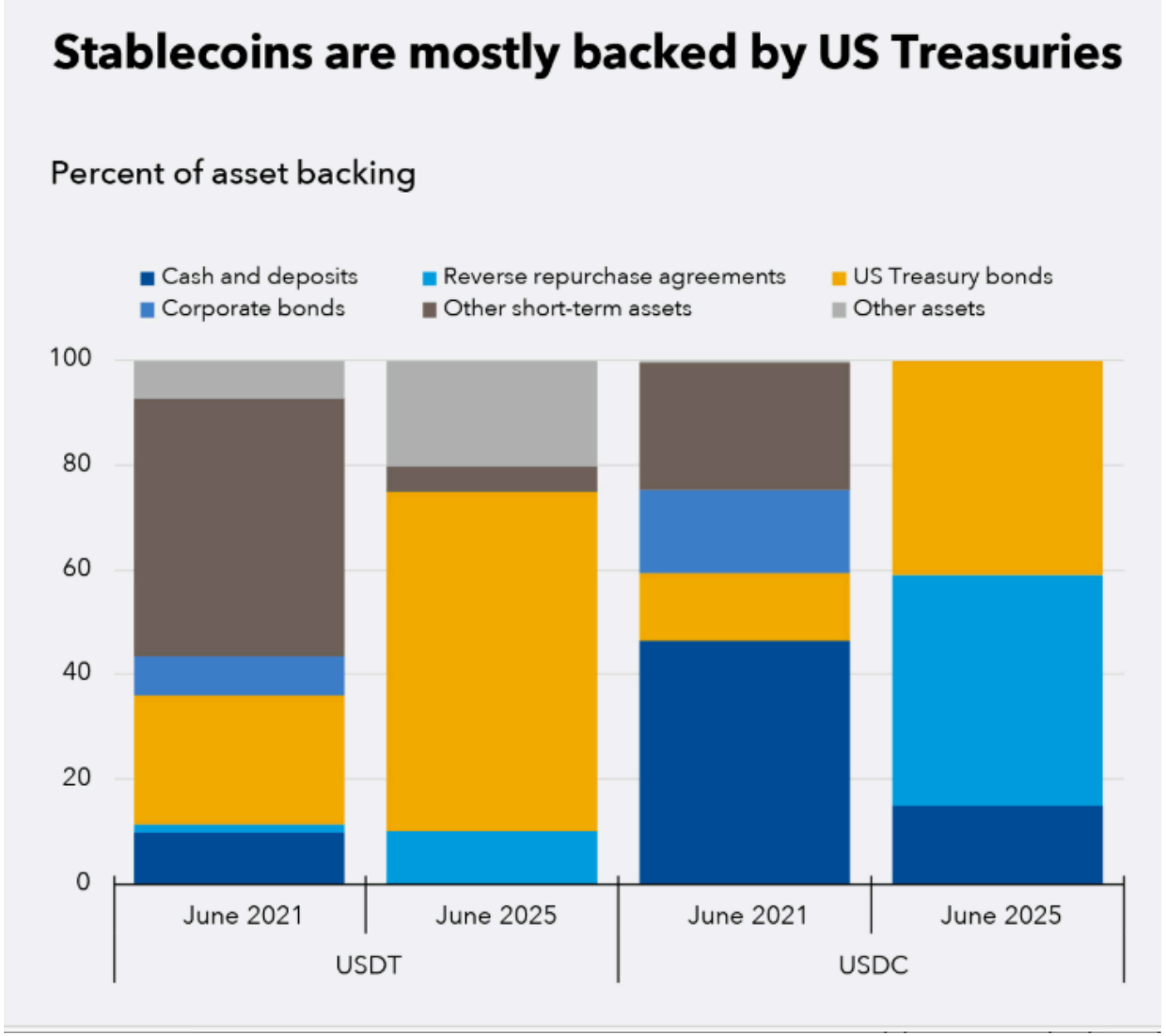
What Are Stablecoins?

Stablecoins are crypto assets that aim to maintain a stable value relative to a specified asset or a pool or basket of assets, blending desired stability of money with innovation of blockchain

- Fiat-backed
  - USDT (Circle)
  - USDC (Tether)
  - PYUSD (PayPal)
- crypto-backed:
  - DAI (MakerDAO)
- Algorithmic:
  - TerraUSD + LUNA – collapsed in 2022

Some Key characteristics

- Issuer: private entities.
- Denomination: commonly in an existing currency, such as the US$ or euro, but in some cases also in a different unit of account.
- Value: the price of a stablecoin is expressed in its unit of denomination.
- Stability mechanism: backed with “reserve” assets, which may comprise financial assets, commodities, or other crypto assets. A few stablecoin issuers aim to maintain a stable value by purchasing and selling their stablecoins on the market (known as algorithmic stablecoins).
- Remuneration: none directly. Strict rules in the GENIUS Act.
- Transferability: peer-to-peer and through intermediaries.
- Infrastructure: commonly public blockchains are used to record ownership and settle the transfer of stablecoins.


Stablecoins are mostly backed by US Treasuries
Percent of asset backing
Cash and deposits
Reverse repurchase agreements
US Treasury bonds
Corporate bonds
Other short-term assets
Other assets
100
80
60
40
20
0
June 2021
June 2025
June 2021
June 2025
USDT
USDC

IMF DP 2025.

Table 1. Selected Characteristics of Stablecoins versus Traditional and Tokenized Forms of Money

	Issuer	Value	Stabilization Mechanism	Remuneration	Transferability
Stablecoin	Private	Traded value, aiming at par to reference assets	1:1 short-term and liquid assets as backing, with constrained redemption rights	None (directly) (1)	Peer-to-peer and through intermediaries, potentially globally
Currency, central bank digital currency (CBDC), and central bank reserves	Public	Nominal value stability	Power to issue central money and to regulate currency exchange rates; legal tender laws (2)	None for currency, for central bank reserves depends on jurisdictions and scope, for CBDC depends on design choices	Peer-to-peer for currency (but limited by physical proximity); for CBDC could be peer-to-peer, but subject to customer due diligence requirements
Demand deposits	Private	Fixed value, at par to currency	Relies on assets backing, regulation and supervision, deposit insurance	Yes, when carrying positive rate of interest	Not freely transferable on a peer-to-peer basis (3)
Money market fund shares (CNAV)	Private	Fixed value, at par to reference assets	Relies on regulation and supervision, enforcing, among other things,1:1 short-term and liquid assets as backing, with redemption rights subject to liquidity management tools	Yes	Not transferable (4)
E-money	Private	Fixed value, at par to currency	Relies on client funds segregation in banks or central bank	Depends on regulation	Transferable mostly within the closed system of the e-money issuer

Source: IMF Staff analysis.

Note: This comparison (i) considers existing stablecoins practices, which might change with implementation of regulations, and (ii) assumes that stablecoins and other assets are denominated in the same currency; most stablecoins are denominated in US dollars, while traditional forms of money are primarily denominated in local currencies. (1) Some stablecoin issuers provide monetary incentives to investors through intermediaries to maintain their exposure, albeit this remuneration is not organic to the structure. (2) Some legal frameworks require some backing of the currency in circulation in foreign exchange and precious metals. (3) In most jurisdictions, deposit balances represent claims depositors have against their banks and legal transfers of these claims typically require the banks' involvement for the execution and settlement rather than direct peer-to-peer transfer. (4) Potentially peer-to-peer, but subject to money market fund approval in order to satisfy customer due diligence requirements. CNAV = constant net asset value.

How Stablecoins Compare with Bitcoin

Bitcoin: the first decentralized cryptocurrency, built on blockchain technology. Its supply is capped at 21 million coins.

- began in 2008 (Nakamoto's White Paper) as an experiment in decentralized digital money and has evolved into a globally traded, institutionally recognized digital asset, shaped by cycles of innovation, speculation, crisis, and regulatory development.
- A volatility investment asset.

Stablecoins are designed to avoid the wild price swings of native crypto assets like Bitcoin.

While both are based on distributed ledgers, one key difference is that stablecoins are centralized (meaning they are run by a specific company) and are mostly backed by conventional and liquid financial assets, like cash or government securities.

BTC vs Stablecoin Volatility

How Stablecoins Compare with CBDCs

- A CBDC (Central Bank Digital Currency) is the digital form of sovereign money issued directly by a central bank. https://cbdctracker.org/
- Enable faster, cheaper, 24/7 domestic and cross-border payments
- Reduce reliance on legacy rails (ACH, SWIFT)
- Retail CDBC vs. wholesale CDBC

How CBDCs Compare with Other Forms of Money

Feature	CBDC	Bank Deposits	Stablecoins	Cryptocurrencies
Issuer	Central bank	Commercial banks	Private issuers	Decentralized networks
Liability of	Central bank	Banks	Issuer / trust	None
Stability	Highest	High	Varies	Volatile

Stable coins: A tokenized Money Market Fund (MMF)?

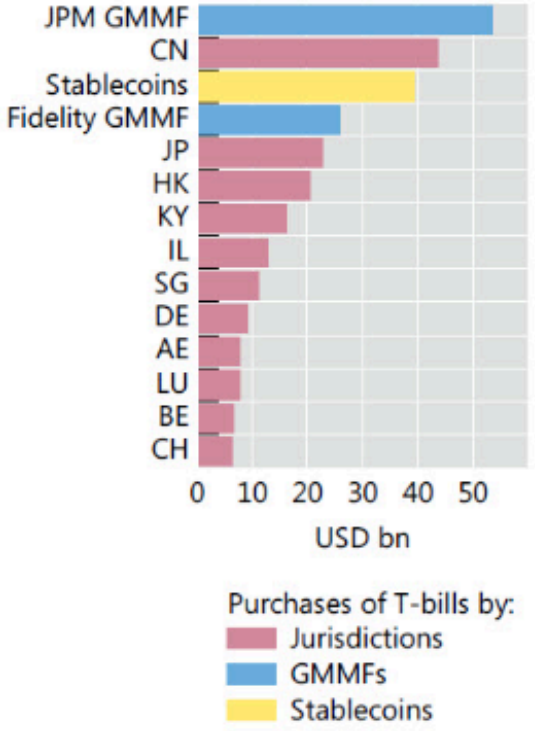
- MMF pools investors' cash and invests T-bills, CPs issued by corporations, CDs issued by banks, etc.
- Share prices aim at $1.00 plus returns slightly higher than bank deposits. Same-day or next-day redemptions.
- Credit risk: Issuer of CPs may default.
- Liquidity risk: Large, sudden redemptions can cause distressed selling.
- "Breaking the buck": CNAV funds may fall below $1.00 if losses exceed buffers (rare but occurred in 2008).Closely monitored by regulators.

- Their balance sheet structures are very similar, but they react very differently to crypto and U.S. monetary policy shocks

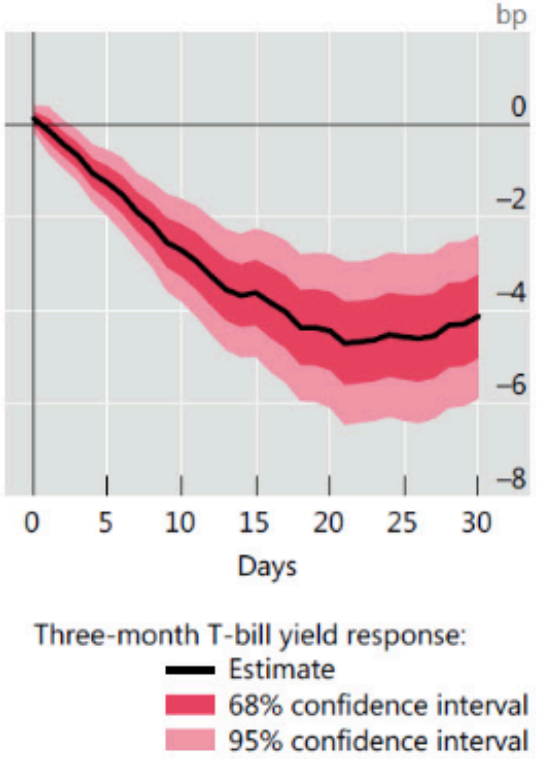
Stablecoins' effects on safe asset markets and reaction to monetary policy[1]

Graph 3

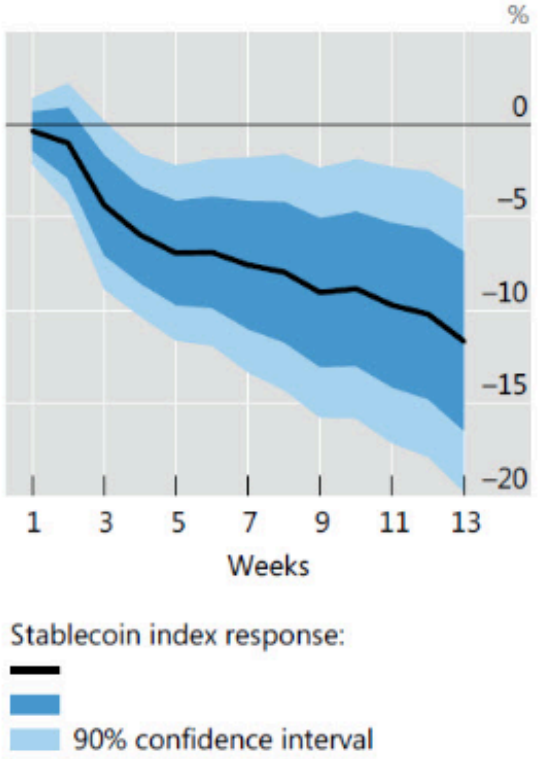
A. Stablecoins among top buyers of T-bills in 2024, on par with MMFs



B. Stablecoin inflows can put downward pressure on T-bill yields



C. Stablecoins respond to monetary policy shocks like risk assets



GMMF = government money market fund.

[1] See endnotes for details.

Sources: Ahmed and Aldasoro (2025); Aldasoro et al (2025a).

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THE SIZE OF
U.S. Financial Institutions
TOTAL
$78.7T
MUTUAL FUNDS
$20.9T
PROPERTY AND CASUALTY COMPANIES
$3.4T
$9.9T
LIFE INSURANCE COMPANIES
HEDGE FUNDS
$10.9T
INSURANCE COMPANIES
$13.3T
BANKS AND CREDIT UNIONS
$27.7T
BROKER-DEALERS
$5.9T
DATA AS OF Q2 2024
SOURCE: FEDERAL RESERVE
voronoi

A blurred line between traditional financial institutions and private stablecoin issuers

- Increasingly large amounts of Treasuries held by stablecoin issuers, this raises systemic market implications for demand and supply in U.S. government debt markets.

- raising questions for regulators and policymakers on oversight, reserve transparency, redemption risks, and macroprudential consistency.

The GENIUS Act

- The U.S. stablecoin law—the GENIUS Act of July 2025—establishes a federal regulatory framework for payment stablecoins, requiring licensing, reserve backing, audited disclosures, risk management standards, and coordinated federal and state oversight.

- The objectives include (White House factsheets):
  - Strengthen the U.S. dollar’s reserve currency status
  - Make America the Leader in digital assets (WH factsheets)
  - Provide legal clarity for stablecoin issuance and operations.
  - Ensure consumer protection and financial stability.
  - Support innovation and adoption of digital assets in payments and finance.

Who can issue stablecoins?

- **Federally Regulated Depository Institutions** - these institutions can issue payment stablecoins automatically, provided they comply with reserve, disclosure, and risk-management requirements.
- **Non-Bank Issuers** (CIRCLE. PayPal, fintechs) - supervised by a state regulator and receives a federal-level approval under the Act.
    - Adequate capital and liquidity
    - Holding reserves 1:1 in cash, T-bills, or high-quality liquid assets;
    - Monthly attestation of reserves;
    - Governance and risk-management standards similar to banks
- **Foreign firms** can issue stablecoins only if they comply with the U.S. reserve, disclosure, and redemption rules, and they register with U.S. regulators before operating in U.S. markets.
- **The $10 billion threshold.**

Who Cannot Issue Payment Stablecoins?

- Unlicensed tech firms
- Crypto exchanges, unless separately licensed
- DAOs or decentralized protocols without a legal entity
- Entities that do not meet reserve or governance requirements
- Algorithmic stablecoins cannot be issued under this framework unless fully collateralized and licensed.

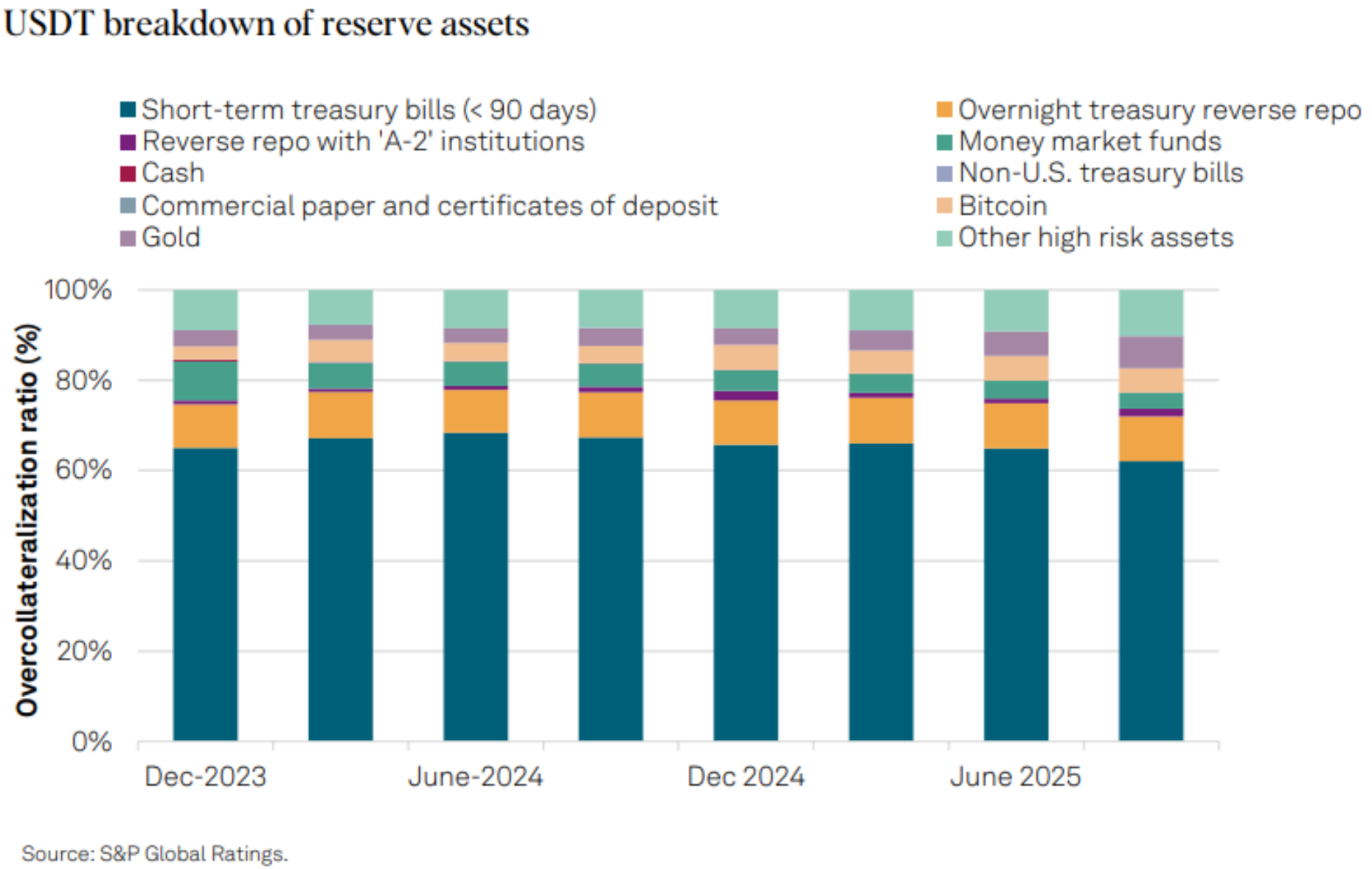
Strict Rules on Remuneration for Stablecoins

- Nonbank stablecoin issuers cannot pay interest on held stablecoins, offer yield or rewards linked to holding the stablecoin, structure incentives that resemble deposit-like remuneration
- Bank stablecoin issuers may pay interest only if it is on a traditional deposit but not on the stablecoin itself.
- Interest-bearing stablecoins cannot be payment stablecoins under the GENIUS Act.
- Stablecoins are payment instruments not saving products
- Preventing stablecoins from becoming high-yield shadow deposits, avoiding disintermediation of banks

Strong back assets and transparency requirement

- High holdings of U.S. Treasuries by stablecoin issuers signal strong backing by liquid, high-quality assets, which supports confidence in their peg.
- In Nov 2025, S&P Global Ratings lowered its stablecoin stability assessment for USDT to the weakest category under its stablecoin framework, citing a growing share of higher-risk reserve assets and limited clarity on reserve counterparty risk. This highlights how reserve composition and transparency are critical for stablecoin confidence, even for the largest stablecoin.”

Nov 26, 2025: S&P downgraded USDT's stability assessment to the lowest category: "5 (Weak)."



Why would one hold stablecoins?

- Payments and transfers (especially cross-border, remittances, P2P)
  - Near-instant settlement, 24/7 availability
  - Lower cost and fewer intermediaries than correspondent banking
  - Dollar alternative in countries where banking systems are slow, costly, or unreliable, or with high inflation, capital controls
- They allow crypto investors can exit volatile crypto assets without leaving the crypto ecosystem (a digital parking asset during market stress).
- Stablecoins are not designed for appreciation. Their value remains pegged, which means there's no speculative gain.
- A relative store of value: not equivalent to insured deposits, might be attractive in EMs with high inflation and FX volatility
- You cannot directly invest in Circle or Tether, but can gain indirect exposure through crypto-infrastructure companies, blockchain ETFs, or private secondary markets

De-pegging risks

Example, Stablecoins TerraUSD in 2022, backed by volatile token Luna, collapsed to zero.

- Caused a loss of about $40 billion in 2022
- The co-founder of Singapore-based Terraform Labs that developed the TerraUSD and Luna currencies, was sentenced on Thursday to 15 years in prison for what a judge called an "epic fraud.“ (Reuters, Dec 11, 2025)
- TerraUSD didn’t have stable collateral and over-collateralisation to maintain the peg.

- This type of stablecoins would not have been allowed under the GENIUS Act.

Why Can Stablecoins Move Away from $1 If They’re Pegged?

- Stablecoin Peg = Target, Not Guaranteed Price

- Supply and Demand
  - Stablecoins trade on exchanges like any asset.
  - High demand → price may rise above $1 (e.g., $1.01).
  - Low demand or selling pressure → price may fall below $1 (e.g., $0.98).

- Confidence in the Issuer
  - If users trust the reserves, the peg holds.
  - Rumors or concerns → selling → price dips.
  - Example: USDT sometimes trades at $0.97 under stress.

- Strength of Redemption Mechanism
  - Easy redemption at $1 = tight peg (USDC, PYUSD).
  - Difficult redemption = more price drift (USDT on some platforms).
  - Arbitrage traders buy below $1 and redeem, pushing price back up.

- Market Stress or Shocks
  - Extreme events can temporarily break the peg.
  - Example: USDC dropped to $0.88 in March 2023 when a partner bank failed

A bank run led to a run on stablecoins

- The Circle held about 8% of its backing as cash deposits at SVB
- SVB collapsed March 10, 2023 -> $3.3 deposits were frozen.
- USDC briefly lost its peg and fell to $0.87
- Stablecoins rely heavily on confidence that every token is fully redeemable at all times.
- Recall the 2008 run on repos and MMFs?
- On March 12, 2023, U.S. regulators announced that all SVB deposits would be guaranteed, including uninsured corporate deposits like Circle's.
- USDC rebounded to $0.995

- Can you see the similarities with the 2008 run on repos and MMFs?
- stablecoins are exposed to traditional banking risks.
- Confidence and transparency are critical.
- Safe assets are the key!

Regulatory Responses and Developments

- US: The GENIUS Act (July 2025)
- EU: MiCA (Markets in Crypto-Assets Regulation) took effect in 2023-24.
- FSB/BIS guidance; IMF inputs.
- Other country examples:
  - The Bank of England's proposed framework for stablecoins - includes a standing facility for systemic stable coin issuers (ex-post crisis management) and a requirement for 40% of reserves to be held in central bank reserves (ex ante prevention)

The regulatory landscape for stablecoins is evolving.

- The IMF, the FSB, and international standard-setting bodies have issued comprehensive policy recommendations to address risks from crypto assets, including stablecoins:
  - safeguard monetary sovereignty and stability by strengthening monetary policy frameworks;
  - maintain the effectiveness of capital flow management measures;
  - confirm legal treatment and provide clear guidance;
  - implement and enforce Financial Action Task Force (FATF) standards and address market integrity issues;
  - establish international collaborative arrangements;
  - monitor the impact of crypto assets on the stability of the international monetary system; and
  - strengthen global cooperation.

Views

- Stablecoins have great potential to make international payments faster and cheaper for people and companies. But this promise comes with risks of currency substitution and countries losing control over capital flows, among others (IMF 2025).
- The IMF continues to closely monitor developments and the evolving impact of stablecoins on the international monetary system, offering analysis, technical assistance, and policy advice to member countries on crypto assets, including stablecoins (IMF DP, November 2025).
- Stablecoins offer some promise on tokenization but raise a number of other concerns. …there is an inherent tension between their promise to always deliver par convertibility (ie be truly stable) and the need for a profitable business model that involves liquidity or credit risk. Moreover, loss of monetary sovereignty and capital flight are major concerns, particularly for emerging market and developing economies. If stablecoins continue to grow, they could pose financial stability risks, including the tail risk of fire sales of safe assets. (BIS Annual Economic Report, June 2025).

References

- IMF Departmental Papers, 12/04/2025, Understanding Stablecoins, by Tobias Adrian and others.
- BIS Working Papers No 1270, Stablecoins and safe asset prices,, May 2025
- FEDS Notes, February 2024, Primary and Secondary Markets for Stablecoins.
- ECB Working Paper Series, #2987, 2024(2025), Stablecoins, money market funds and monetary policy

Extra slides

Optional Add-On Slide — Mainland China vs. Hong Kong: Comparison

Feature	Mainland China	Hong Kong
Legal Status of Stablecoins	**Prohibited**	**Permitted with license**
Algorithmic Stablecoins	Prohibited	Prohibited
Fiat-Pegged Stablecoins	Illegal	Allowed if fully backed
Issuer Requirements	None (activity banned)	Licensing, capital buffers, 100% reserves
User Access	Not allowed	Retail & institutional users may use licensed coins
Strategic Focus	e-CNY (digital RMB)	Regulated digital asset ecosystem
AML/CFT Framework	Very restrictive	Global-standard compliance regime

ChatGPT generated.

Digital Money

- Digital money is rapidly changing the landscape of our financial system
  - China: Alipay, WeChat pay, e-CNY
  - US: Bitcoin, Ethereum, Libra, Zelle, Paxos
  - Africa: M-Pesa
- Stablecoin, as a representation of cash on blockchain with price stability achieved by 1:1 backing with reserve assets, is getting more attention
- USD-pegged stablecoins (e.g., USDT (issued by Tether) and USDC (issued by Circle)) dominate with market cap exceeding $240 billion, accounting for more than 90% of world market
- Non-USD pegged stablecoins are rising fast, HK SAR passed a stablecoin bill introducing a licensing regime for fiat-referenced stablecoin issuers; Euro-denominated stablecoins rapidly growing

How is a stablecoin “minted” and “burned”?

- Minting: Money in -> Tokens out

  (1) Customer deposits real money

  (2) Issuer verifies and receives funds.

  (3) New stablecoins are minted (The issuer’s smart contract creates new tokens).

  (4) Stablecoins are sent to the customer (The issuer transfers newly minted stablecoins to the user’s blockchain address).

- Burning: Redeem stablecoins for cash

  (1) Customer sends stablecoins back to the issuer

  (2) Issuer verifies token receipt (The issuer checks that the tokens were transferred to the redemption address)

  (3) The issuer destroys the tokens on-chain via a burn function.

  (4) The Issuer releases cash back to the customer.

Who can freeze stablecoins?

- A stablecoin freeze means the issuer has used its administrative authority to block certain tokens or addresses from being transferred or redeemed, usually for legal or compliance reasons.

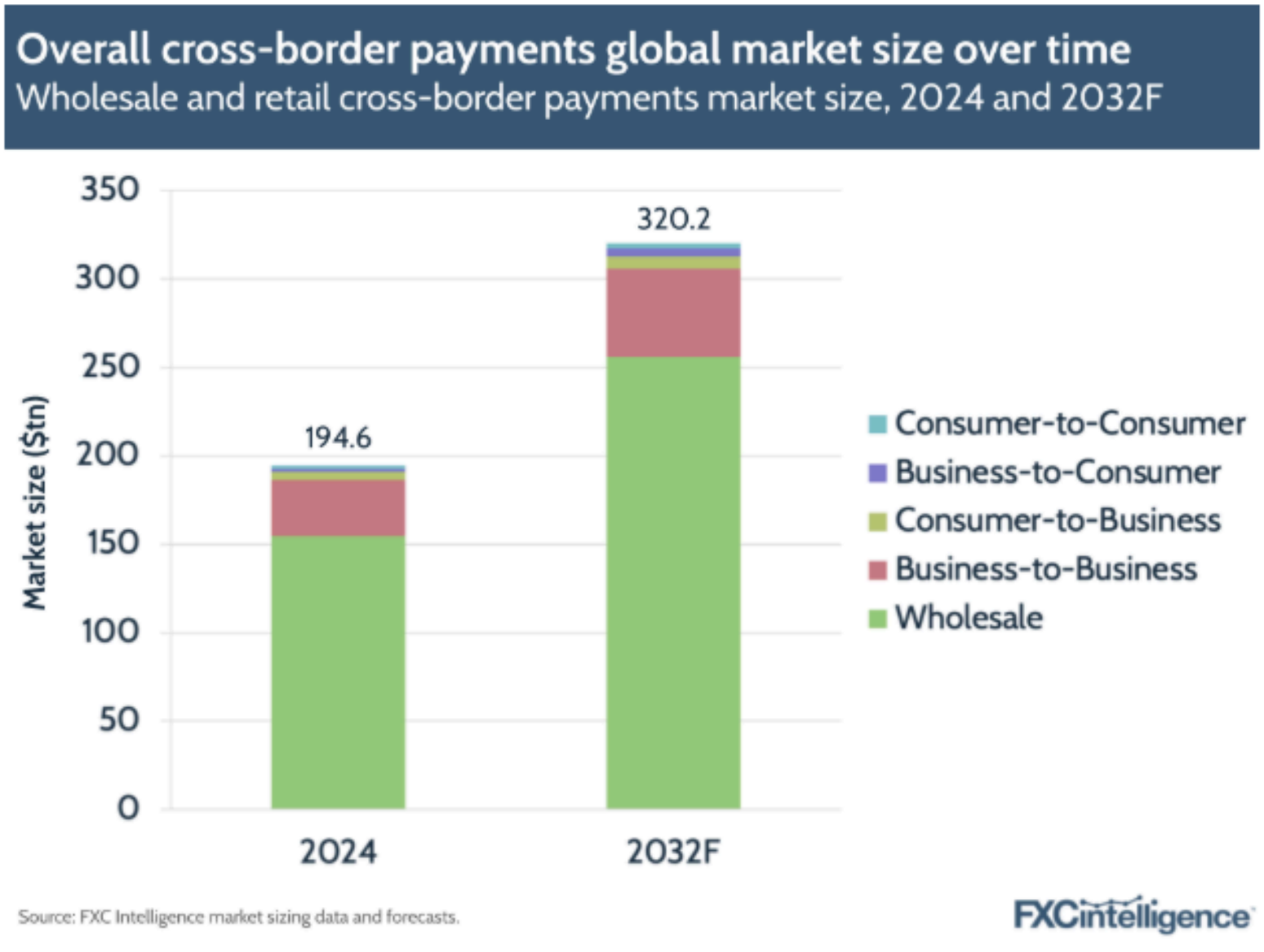
- When a stablecoin is frozen:

  - The affected wallet address cannot send or receive that stablecoin
  - The tokens remain visible on-chain but are functionally unusable
  - The freeze can be address-specific or token-specific
  - In most cases, the freeze is reversible at the issuer’s discretion
  - Importantly, freezing does not destroy the tokens; it restricts their use.

Web 3.0

- Web3 (also written Web 3.0) refers to a vision of the internet that is decentralized, blockchain-based, and user-owned, in contrast to today's internet, which is dominated by large centralized platforms.
  - Web1 = read-only internet
  - Web2 = read-write internet (platforms control data)
  - Web3 = read-write-own internet (users control assets and identity)

The global context



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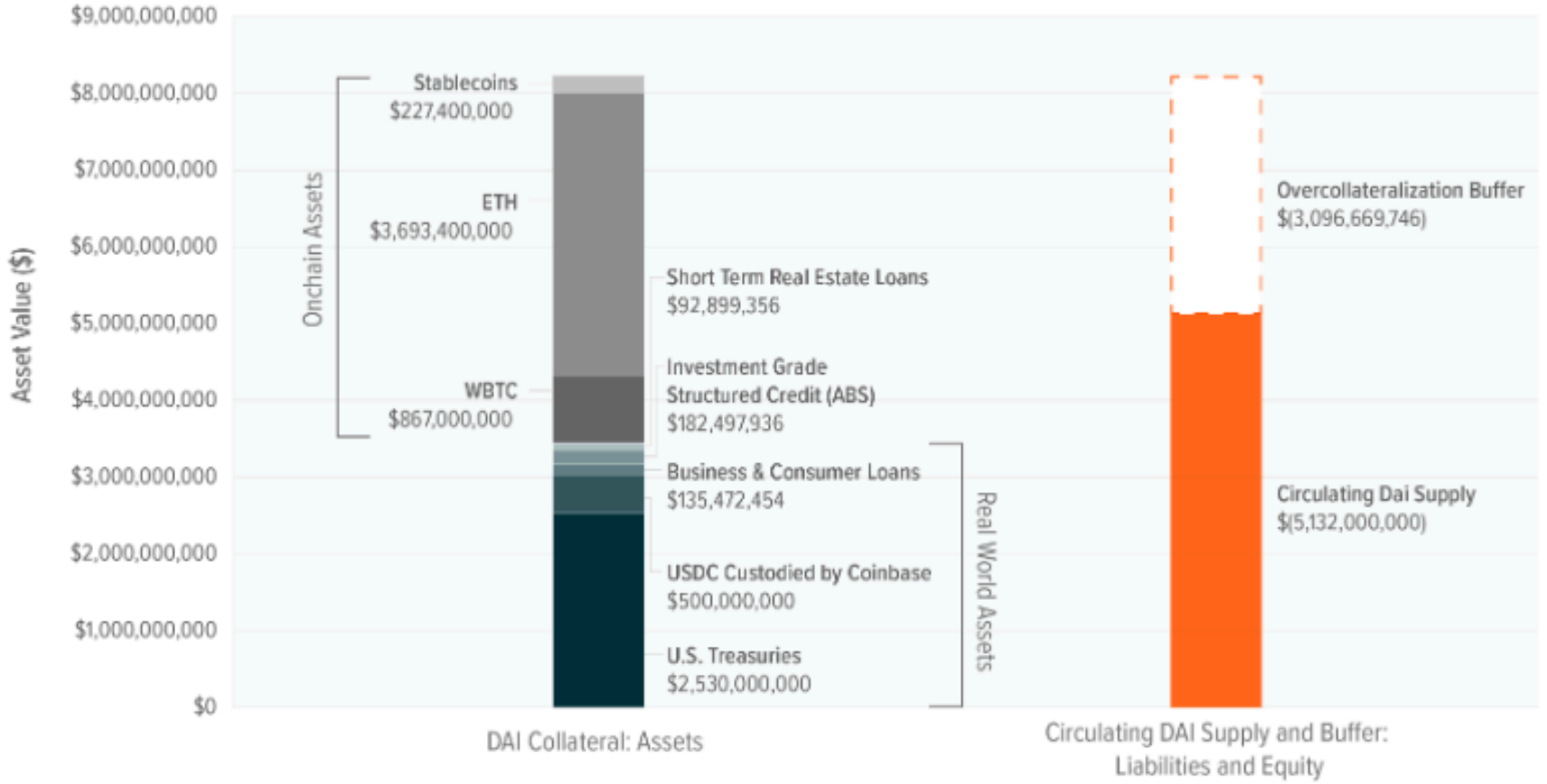
DAI OVERCOLLATERALIZATION

Source: Global X ETFs with information derived from Maker Burn.