STABLECOINS, TOKENS, AND GLOBAL DOMINANCE

Hélène Rey

Technology is reshaping capital flows and currency dominance; data integrity is essential for financial stability

Technology is poised to shake up the international monetary and financial system. How that happens depends on whether technologies are shaped by the public sector or the private sector sets standards first. Also at play are regulations, international cooperation, and the resilience of new technologies to cyber risk. The effects on capital flows are hard to assess, but they could have a surprisingly large impact on fiscal accounts, geoeconomic fragmentation, exchange rate volatility, and the internationalization of major currencies.

Stablecoins are one of the most relevant innovations, increasingly embraced amid US introduction of a legal framework designed to boost adoption and solidify the dollar's role as the main international currency. Tokenization plays a role as well. It is the process of recording claims on assets that exist on a traditional ledger—or native assets (that is, only issued digitally)—on a programmable platform, where they can be transferred (Agur and others 2025).

These new technologies could unleash new functionality, such as programmability, and enlarge the set of feasible policies, as well as deeply unify the way capital flows across bor-

BRIAN STAUFFER

ders and asset classes if many private and official actors use the same platform. But they also could threaten government revenues and take us back to a 19th century world of private money issuers competing for seigniorage, which would fragment and destabilize the international financial system.

Implications of stablecoins

Stablecoins issued by the private sector bridge the conventional financial system and the crypto ecosystem. They promise stable value relative to fiat currencies, mainly by holding liquid assets such as US Treasuries, and operate on blockchains. They share some features with money market funds and with "narrow banking"—also known as 100 percent reserve banking—though they typically do not, so far, offer an interest payment. Almost all stablecoins are pegged to the US dollar, but most transactions happen outside the United States. Stablecoins tend to be used as on- and off-ramps to crypto assets, in which case they are probably vehicles for speculative investments. But increasingly, they are also a cross-border payment instrument. They are useful where the domestic financial system is weak or costly to use or when international financial transactions are regulated, either because of capital controls or externally imposed sanctions.

In a world where stablecoins, particularly those pegged to the dollar, become an important global payment tool, we must brace ourselves for substantial consequences. On the negative side are dollarization and its side effects, financial stability risks, potential hollowing out of the banking system, currency competition and instability, money laundering, fiscal base erosion, privatization of seigniorage, and intense lobbying. On the positive side, cross-border payments may be quicker and cheaper, which matters especially for remittances. And citizens of countries with poor governance would have access to more stable and convenient means of payment and store of value than their domestic currency. Who gets payment data and US dominance when it comes to imposing sanctions will be affected as well. Clearly these possibilities warrant more discussion.

Capital flows and intermediation

US dollar stablecoins inherit some characteristics of their parent, the most important international currency. Tied to the dominant unit of account, they can benefit from the dollar ecosystem's network externalities and from its credibility and hence have the potential to be an important medium of exchange worldwide, facilitating transactions and remittances. By superseding the system of correspondent banking and messaging systems such as SWIFT, they may speed up and lower the costs of cross-border transactions, improving efficiency. But some of this decrease in cost may result from a lack of know-your-customer and anti–money laundering compliance—that is, if regulatory authorities do not catch up. Stablecoins are certainly also an attractive way to get around sanctions and engage in illegal transactions. They are more stable than Bitcoin and Ether, which have been used precisely for those purposes (Graf von Luckner, Reinhart, and Rogoff 2023; Graf von Luckner, Koepke, and Sgherri 2024). Unbacked crypto assets and stablecoins could thus help channel money linked to illicit or sanctioned activities and substantially erode the tax base of many countries. Crypto users are likely to find off-ramps to conventional financial systems in some jurisdictions, offshore or even onshore.

If the use of US dollar stablecoins increases massively worldwide, it could hollow out banking sectors because of competition for deposits. If banks themselves issue stablecoins, it could curb lending and increase US Treasury holdings—assuming these are the main assets backing the stablecoins—on the asset side of the balance sheet, a development akin to narrow banking. The effects on systemic risk, as well as the potential questionability of some actors' backing of stablecoins and the ensuing run risks, bear a close look. And the classic cost of dollarization around the world should be kept in mind: It can alter the transmission channels of monetary policy and hinder macroeconomic stabilization.

Privatization of seigniorage

For the rest of the world, including Europe, wide adoption of US dollar stablecoins for payment purposes would be equivalent to the privatization of seigniorage by global actors. Along with easier flows linked to tax evasion, fiscal accounts could be affected. On the asset side, the backing of stablecoins means that increased international adoption of those pegged to the dollar could lower demand for non–US government bonds and raise demand for US Treasuries. The magnitude of this effect will depend on substitution patterns between dollar-backed crypto assets and money market funds and deposits in local currencies and dollars. Tether and USDC already hold collectively more US Treasuries than Saudi Arabia, as shown in Chapter 2 of the IMF's July 2025 *External Sector Report*. Thus, by increasing the demand for Treasuries and the stock of US external safe liabilities, US dollar stablecoins could reinforce the "world banker" balance sheet of the United States and help stabilize US finances and external deficits. These stablecoins could constitute a digital pillar strengthening the exorbitant privilege of the US dollar.

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Another consequence of growing US dollar stablecoin flows, leading to the privatization of global seigniorage, is significant wealth accumulation by what is likely, given the strength of network externalities, to be a few companies and individuals. From a political economy perspective, this will usher in increased lobbying for deregulation and opacity of international capital flows. Such an outcome would defy the public good dimension of the international monetary system. Unfortunately, data collection efforts on crypto capital flows by international organizations and country authorities are still in their infancy. There are two valuable contributions in recent IMF research that describe these challenges (Reuter 2025; Cardozo and others 2024). Since the emergence of cryptocurrencies may threaten core macroeconomic policies and the financing and provision of national and global public goods, measuring their flows, use, and global regulation should be a policy priority.

Tokenization and integration

Tokenization could integrate messaging, reconciliation, and asset transfer on a unified ledger where central bank digital currencies (CBDCs) also play a major role. Different countries' CBDCs could be linked for efficient cross-border transactions, according to the Bank for International Settlements. Global capital flows could be reshaped by such tokenization and a blockchain that allows

money, assets, and information to move securely and automatically without traditional banking or clearing systems.

Access to foreign assets has historically been restricted by barriers such as capital controls, regulation, and inefficient cross-border payments. Interoperability and new trading platforms for global assets such as stocks, bonds, and commodities could open up access for individual investors, wherever they are. Decentralized finance (DeFi) platforms could amplify these benefits with peer-to-peer transactions, cutting out intermediaries such as banks and brokers. Tokenization may thus expand financial integration, bringing both advantages and well-known challenges.

Currencies and financial stability

Such a system could mean more substitutability across currencies and therefore more competition, leading to large portfolio shifts across currency networks. Increasing returns to scale will play out in this larger international arena, as will forces pushing for a single unit of account; the incumbent dollar has a head start. But the strategic value of payment data and the desire for sovereignty in different jurisdictions' payment systems could fuel fragmentation and even restrictions on the use of some currencies. The emergence of programmable capital controls and granular restrictions on wallets is possible, and a more multipolar international monetary system could follow. The coexistence of multiple connected networks could even fracture the monetary and financial system if several private issuers gain market share and tokenization platforms proliferate. But such a world is inherently fragile. History tells us that private monies are unstable for all the traditional reasons linked to lack of credibility. When they are not well regulated and not backed by a sovereign that can tax and enforce contracts, private monies often lead to runs. Sovereign currencies themselves may be unstable when the credibility of their institutions—in particular, their fiscal institutions—is questioned. International policy cooperation and regulation are essential to prevent excessive fragmentation and financial fragility.

Integrity privilege

This new world will risk even greater instability if loss of credibility also comes from *loss of data integrity*. The US Commerce Department's National Institute of Standards and Technology warned in 2016 that quantum computers may soon solve problems conventional computers have trouble managing and, as emphasized by Fusa (2023), will be able to break many of the public key cryptosystems currently in use. This problem is often ignored. The development of *post-quantum cryptography,* secure against both quantum and classic computers and interoperable with existing communications protocols and networks, is progressing, but the outcome is uncertain given the race for computer power. Hence the currency networks most exposed to hacking and to losing their integrity will see massive confidence crises and capital outflows, which could spur financial crises. In such a world, the currency network with the *smallest attack surface* for hackers should harvest a premium and reduce its financing costs—this could be called an "integrity privilege."

To conclude, the impact of technology on the international monetary and financial system will be profound but is hard to forecast: It will be shaped by unpredictable innovations, regulatory policies, and lobbying groups. Major financial stability risks, including increased volatility in exchange rates; threats to public finances in many economies; and competition across currency networks are likely. It may result in large wealth transfers, which will alter the political economy of regulation. International policy cooperation is therefore essential. Finally, new technologies may reshuffle international currency dominance and result in the emergence of an integrity privilege. F&D

HÉLÈNE REY *is the Lord Raj Bagri Professor of Economics at the London Business School, vice president of the Centre for Economic Policy Research, and president of the European Economic Association.*

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