Editor's Letter

Technology, Payments, and the Rise of Stablecoins

THREE YEARS AGO, *Finance & Development* devoted a full issue to anticipating "The Money Revolution," driven by innovations in finance, such as crypto assets. That revolution is now unfolding.

This issue of F&D looks at the new frontiers of finance, where technology, data, and changing societal values are reshaping how people and institutions move money and trade financial assets, who provides liquidity, and where new risks are brewing. We bring together academics and policymakers to assess this complex and politically charged landscape, one that generates excitement and anxiety in equal measure.

Stablecoins are one of these frontiers, a form of digital asset backed by currencies or government bonds. Stablecoin companies have racked up millions of users globally, transacting across borders 24/7 at very low cost. New legislation in the US and other countries may further boost their growth.

Hélène Rey, a professor at the London Business School, assesses the macroeconomic and geopolitical implications of widespread adoption of US dollar–denominated stablecoins around the world. On the positive side: faster and cheaper cross-border payments. On the negative: risk of dollarization, capital flows and exchange rate volatility, potential weakening of the banking system, money laundering and other financial crimes. While it's hard to forecast how the use of this technology will play out, it's "likely to create major financial stability risks," she writes.

Yao Zeng of the University of Pennsylvania Wharton School identifies one potential source of risk: "The global financial landscape has changed, yet the rules remain largely unchanged." He puts stablecoins in the context of broader changes in financial markets. For example, lightly regulated nonbanks are providing more liquidity. And lenders are increasingly relying on AI and big data to speed loan approvals, reduce collateral requirements, and reach borrowers traditional banks often overlook. One thing is clear, he writes. "Stablecoins may function well in good times, but they can falter under stress."

Stablecoins are only one facet of the revolution. The public and the private sector alike are driving innovation. Some governments and central banks have responded to private payment initiatives by sponsoring systems

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that respond to consumer demand for fast, efficient payments. IMF researchers examine the case of India's Unified Payments Interface, which interconnects hundreds of banks, platforms, and apps and carries out more than 19 billion transactions a month.

At the same time, central banks and supervisors must contend with disruptive innovation. New entrants like fintechs and big techs, and new products like crypto and stablecoins, are challenging incumbent financial institutions. Iñaki Aldasoro, Jon Frost, and Vatsala Shreeti, from the Bank for International Settlements, explore how competition among the new entrants and incumbents might unfold. They conclude that forward-looking public policies must accompany radical innovation to achieve the most impactful breakthroughs.

Preventing crime is another area in which public authorities need to stay alert. Criminals, unfortunately, were among the earliest adopters of crypto, and all payment systems need to balance privacy and speed with the need to stop tax evasion, money laundering, and terrorism financing. Stanford's Darrell Duffie and coauthors lay out a practical approach to getting ahead of the curve.

Clearly, there is a lot of room for innovation in payment systems and financial markets in general. Users demand it. The key is to balance the risks and benefits through clear regulation that protects consumers and investors and limits spillovers. Who knows what new possibilities such innovations will unlock along the way? F&D

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