Are stablecoins really stable?

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An awful lot of what I read these days is about stablecoins. By way of example, my *things worth reading* daily update is filled with news about them. Just this morning:

- Some big US banks plan to launch stablecoins, expecting crypto-friendly regulations
- Central banks face dilemma over rise of dollar-backed stablecoins
- Could Britain be about to get a digital pound?

Considering I only pick a few headlines every day, stablecoins seem to be all the rage these days.

Stablecoins are any cryptocurrency designed to have a relatively stable price by being pegged to a commodity or currency, such as the US dollar, or having its supply regulated by an algorithm.

What's the buzz? Well, by way of example, Citi made a major announcement yesterday that they are looking to issue their own stablecoins. In the announcement the bank's CEO, Jane Fraser, mentioned that stablecoin issuance could reach $3.7 trillion by the end of the decade.

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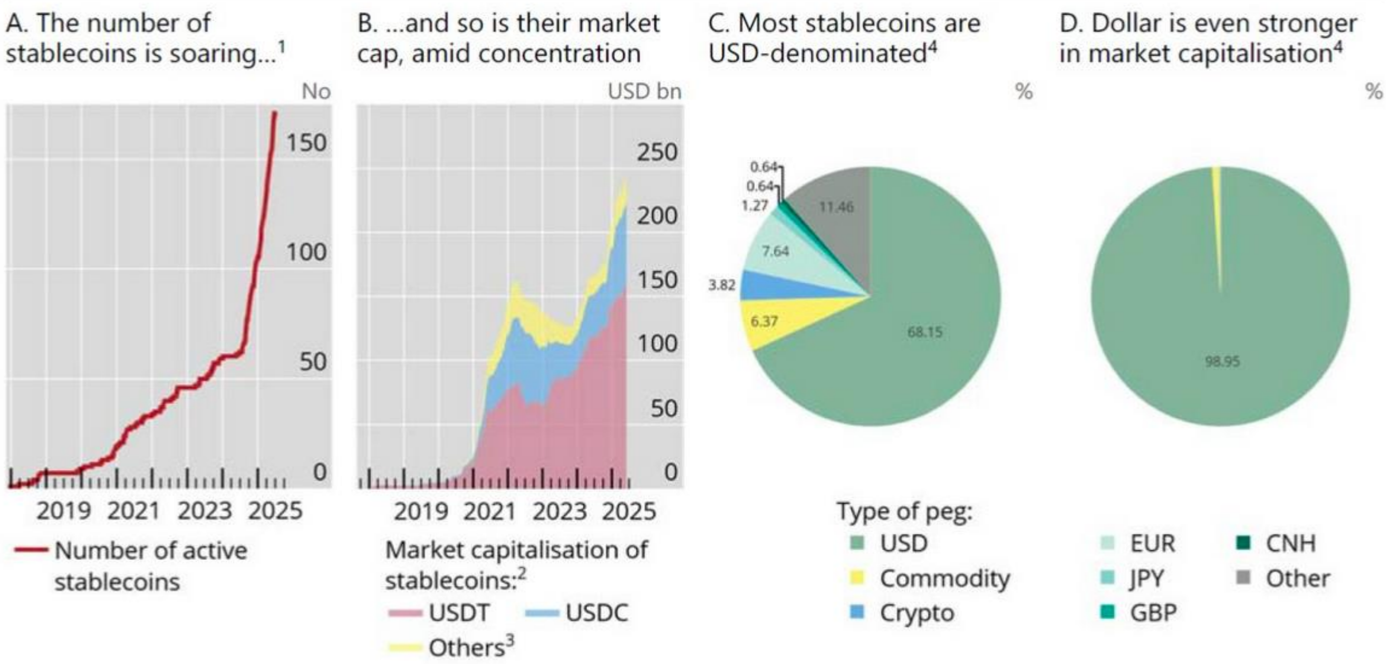
Meanwhile, this coincided with the Bank of International Settlements (BIS), who run the Basel Accord that all banks adhere to, issuing a bulletin about them. The exec summary is that stablecoins have experienced rapid growth, with the number of stablecoins in active use soaring from around 60 in mid-2024 to over 170 today.

Equally striking is the sharp increase in market capitalisation, which has grown from $125 billion less than two years ago to around $255 billion today.

Stablecoins continue to grow Graph 1



While this is equivalent to around 1.5% of US bank deposits, it amounts to about 4% of the assets held by government money market funds (GMMFs) in the United States.

As the bulletin states: “Despite the proliferation in the number of stablecoins, the market remains highly concentrated, with around 90% of market capitalisation accounted for by just two issuers. The market is also overwhelmingly dominated by the US dollar as the reference asset. To date, almost 70% of active stablecoins by count, and almost 99% by market value, are denominated in US dollars.”

So, there are issues here. In fact, the Governor of the Bank of England, Andrew Bailey, warned the world’s largest banks not to issue stablecoins this week. His concern is that several systemically important banks are issuing them. Standard Chartered is on the bandwagon, as are Société Générale and Deutsche Bank. Additionally, Santander and ING are reported to be exploring the idea. The Governor’s beef is that stablecoins can undermine the value of a fiat currency, such as the British pound and, more than this, could seriously impact economic growth.

His recommendation is that, rather than issuing stablecoins, banks should stick to tokenized deposits – blockchain equivalents of conventional deposits. These support bank lending activities, whereas stablecoins require ringfenced reserves that cannot be used for lending and a lack of credit severely affects economic growth.

Central bankers may have concerns but the markets do not. They love the idea!

Circle, the issuer of the $62 billion USDC stablecoin, just completed its initial public offering (IPO) in June and applied for a banking license; Stripe acquired Bridge to allow its business customers to hold, send, and receive stablecoins; Visa has unveiled a bank stablecoin issuance platform; and major firms like Amazon and Walmart are considering stablecoin issuance.

Add to this that the US Senate passed the GENIUS Act on June 17, the country's first federal regulation for stablecoins backed by the US dollar (USD), and you can see this space is hot, hot, hot.

That's all good but, as per the Bank of England's and BIS comments, there are issues here, as listed by *The Atlantic Council*. What issues?

Network transaction fees: sending a stablecoin, whether domestically or abroad, usually requires the user to pay a variable transaction fee. Do the future users of stablecoins intend to pay fees for every transaction?

Fragmentation of money and wallet acceptance: stablecoins fragment the money in your wallet which means that a user cannot combine stablecoin balances into one sum or combine these balances with their other currency holdings.

Fraud risks: banks will struggle to pre-screen transactions or to block or reverse them after a mistake has been made or illegal activity detected.

Bank and exchange intermediation: customers need a bank account to move stablecoins into fiat currency. That means going through KYC processes, which can pose inclusion challenges to those lacking government-issued documentation.

Limits to cross-border remittance savings: stablecoins are often described as a silver bullet for reducing international remittance costs and yet they still involve an costly foreign exchange conversion cost. Moving from a USD stablecoin to, say, Turkish lira costs.

The article goes on to list a whole range of economic issues stablecoins raise from bank deposit and liquidity challenges to a core risk to business model of banking.

So, what is the answer?

Well, according to the DTCC – the clearing system for the US dollar – stablecoins are here to stay and not going away. In fact they say: “stablecoins are no longer just an alternative payment mechanism [but] becoming foundational pillars of global liquidity, integrating seamlessly with traditional financial markets and paving the way for an efficient, interoperable financial future”.

Meantime, going back to the Citi announcement, Jane Fraser made it clear that they “are looking at the issuance of a Citi stablecoin, but probably most importantly is the tokenized deposit space, where we’re very active ... this is a good opportunity for us,” she added.

I am sure that Andrew Bailey was delighted to hear this.

About the Author

Chris Skinner is an award-winning speaker and one of the most influential people in technology, as well as a best-selling author. He is an independent commentator on the financial markets and fintech through his blog, The Finanser, which is updated daily. He helped to found one of the first mobile banks in the world, and has advised CEOs and leaders from every continent of the world including the United Nations, the White House, the World Bank and the World Economic Forum. In 2024 Chris was voted Thought Leader in Finance, Climate Change, Ecosystems and in 2023 he was recognised with a Lifetime Achievement Award by The Payments Association, the largest community in payments.

Chris has recently been added to The Mad 33 List or Inspirational change and transformation leaders – making a difference – making the future a reality.

Mr. Skinner is a visiting lecturer with Cambridge University as well as a TEDx speaker. In recent years, he has been voted one of the UK’s foremost fintech observers by *The Telegraph* and one of the most influential people in financial technology by *The Wall Street Journal’s Financial News* and *Thompson Reuters*. Chris also runs a not-for-profit, the Portrait Foundation, which focuses on unleashing the creative talent of children.