

Stablecoin

*A new role for
the Fed.*

Wakeup Call

As the United States considers reforms at the Federal Reserve, one goal should be to encourage the expansion of stablecoins denominated in U.S. dollars and regulated effectively. The use of stablecoins is expanding rapidly in trade and cross-border payments. There is intense competition for market share. They are being settled on multiple block chains and will be issued in many currencies other than the dollar, including the euro, pound sterling, and yuan.

The increased use of stablecoins denominated in U.S. dollars offers huge benefits for the United States and for global growth. For dollar-linked stablecoins to be dominant, they will have to be well-regulated and transparent, and the dollar will need to hold its value better than it has. With the 2025 GENIUS Act, the United States took a big step forward by establishing a regulatory framework that facilitates and enables stablecoin innovation and private sector crypto development. Additional legislation will be needed over time, but the Fed can play an important role now by doing a better job defending price stability and the value of the dollar. This would make dollar-based stablecoins more attractive, helping capture a larger market share. Stablecoins issued in stable currencies are likely to win out.

Until now, the preeminence of the U.S. dollar in the global financial system has relied on its status as the world's primary currency for international reserves and cross-border transactions such as oil trading. The dollar's primacy has been challenged on occasion, but then heartily reaffirmed—by markets, commercial practices, and governments.

As crypto currencies grow in importance, the U.S. dollar will need to be the primary currency for stablecoins if it is to maintain its preeminence in the global financial system.

The Fed could build trust in the stability of the dollar (and therefore in dollar-denominated stablecoins) by including the value of the dollar in the implementation of its price stability and full employment mandate. This would help lower short- and

BY DAVID R. MALPASS



David R. Malpass served as President of the World Bank from 2019 to 2023, and as Under Secretary of the U.S. Treasury for International Affairs from 2017 to 2019.

long-term interest rates and strengthen the global use of stablecoins denominated in dollars.

The Fed's current models exclude the dollar as an anchor for price stability. Some are calling it the "debase-ment" trade, a bet against the dollar on the view that U.S. policy will ignore the dollar or invite dollar weakness. This risks a loss of share in crypto markets.

China is taking advantage of volatility in the dollar by promoting stablecoins denominated in yuan. It has moved

*The Fed could build trust in the stability
of the dollar (and therefore in dollar-
denominated stablecoins) by including
the value of the dollar in the
implementation of its price stability
and full employment mandate.*

a material portion of its international reserves from dollars into gold, and encouraged countries such as Kenya to replace dollar debt with yuan debt. Despite U.S. sanctions, China has been able to import oil from Russia and Iran by adjusting payment systems, a problem that will get worse if non-dollar crypto currencies take hold.

In the past, the dollar's dominance was protected by multiple defenses that set the dollar apart, including the strength of the U.S. economy and rule of law, controls on money laundering, U.S.-based clearing of bank transactions, strict limits on correspondent banking, and others. As crypto currencies find new uses, however, these defenses could become limitations on market share, so it will be vital to develop new techniques beyond the GENIUS Act and Fed reforms to enable and protect the dollar.

One of the biggest additional gains for the United States would be if dollar-based stablecoins are allowed for domestic transactions in more countries. This would be particularly beneficial in countries that have weak or controlled currencies or small transaction volumes. For people in those countries, the upside is huge. In recent decades, the

For Greater Global Growth

Three highly populated countries show the potential value of stablecoins for domestic transactions—Nigeria, Ethiopia, and Pakistan. Just those three have over six hundred million people who would quickly benefit if they were allowed to have access to money that holds its value and allows inexpensive transactions. Dollar-based stablecoins offer that opportunity. And if the U.S. dollar can gain trust and stability, dollar-based stablecoins could become a central driving force for growth.

—D. Malpass

number of countries with their own currency has surged to 150 or more, giving huge power to their central banks. With that power, however, there is often bureaucracy, expensive regulations, and even corruption. This undermines commerce and prosperity.

As the world looks to new systems for growth and development, three highly populated countries show the potential value of stablecoins for domestic transactions—Nigeria, Ethiopia, and Pakistan. Just those three have over six hundred million people who would quickly benefit if

*For dollar-linked stablecoins
to be dominant, they will have to
be well-regulated and transparent,
and the dollar will need to hold
its value better than it has.*

they were allowed to have access to money that holds its value and allows inexpensive transactions. Dollar-based stablecoins offer that opportunity. And if the U.S. dollar can gain trust and stability, dollar-based stablecoins could become a central driving force for growth. ◆