

THE AMERICAN ECONOMY IN A NEW ERA



EXECUTIVE SUMMARY

Stablecoins After GENIUS: Private Money, Public Debt, and the Global Dollar

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Introduction

The 2025 GENIUS (Guiding and Establishing National Innovation for US Stablecoins) Act established the first comprehensive US regulatory framework for US dollar (USD)-backed stablecoins, setting the stage for significant growth of these digital assets in the coming years. In this paper, Nellie Liang and Brent Neiman describe how stablecoins fit within the financial system; outline the advantages and risks they pose; and offer recommendations for accommodating the growth of the stablecoin market while managing associated risks.

The authors frame their analysis of the stablecoin market around three features, each with advantages and risks:

1. **Stablecoins offer the advantages of peer-to-peer transfers and settlement speed, facilitated by their decentralized nature, but those benefits come with the risks of reduced protections for users, increased attraction for illicit finance, and weakened anti-money laundering enforcement and financial sanctions efficacy.**
2. **Growth in the USD stablecoin market could reinforce the global role of the dollar and increase demand for short-term Treasury debt, which would have the benefit of helping US government finances, but would also increase the variability in fiscal debt service costs, reduce seigniorage revenue, and impair the availability of credit to small businesses.**
3. **A significant share of new stablecoin demand may come from holdings abroad, but this growth should be balanced against concerns from foreign policymakers about the impact of USD stablecoins on the efficacy of their monetary policy and regulatory oversight, as those countries may enact policies to restrict USD stablecoins.**

In the authors' assessment, greater USD stablecoin adoption could create value on net for the US in the near-to medium-term, but stablecoins do not yet have sufficient protections for users or against illicit finance. Over the long term, substitution away from money settled by the central bank could create more fundamental risks to the structure of the financial system, as in the "wildcat" banking period in the US in the 1800s. The authors emphasize that, given current and projected trends, maintaining the status quo is not a feasible choice, but policymakers can positively influence the role USD stablecoins play in the future global payments system.

What are USD stablecoins and what are they used for?

Stablecoins are privately issued assets designed to maintain a stable value relative to the US dollar. They are backed by liquid reserves, mainly short-term Treasury debt. Stablecoins operate on a decentralized, distributed blockchain ledger system that issuers do not unilaterally control. Stablecoins offer 24/7 real-time final settlement, lower transaction costs, and automated execution via embedded smart contracts.

The GENIUS Act requires payment stablecoins to be backed at least one-to-one by a pool of reserve assets that are sufficiently liquid and low risk to ensure convertibility at par (that is, \$1 per token) on demand, though the law also allows riskier assets to serve as reserves, such as uninsured bank deposits. It also requires that stablecoins not be used for illicit activities, and stablecoin issuers must maintain effective sanctions compliance programs. GENIUS clarifies that payment stablecoins are not national currency, securities, or commodities; they are not entitled to Federal Reserve master accounts or backed by deposit insurance. Issuers of stablecoins are not permitted to pay interest.

The total supply of USD stablecoins has grown more than tenfold in six years, rising from \$24 billion in 2020 to \$270 billion in June 2026, though the USD stablecoin market remains small relative to the \$19 trillion of US money circulating in cash and in checking accounts. While most stablecoin activity remains related to crypto trading rather than real-economy payments, their use is rapidly expanding beyond trading crypto assets. As their use in real-economy payments grows, particularly in business-to-business transactions, estimates for overall stablecoin growth range from \$500 billion to \$5 trillion by 2030.

How would USD stablecoins improve payments?

Stablecoins offer lower transaction costs, increased settlement speed, 24/7 availability, and programmability compared to traditional domestic payment methods. For instance, cash is the simplest form of payment and settles immediately but is not convenient for large transactions and cannot be sent or requested automatically. The Fedwire network used by large financial institutions can process large transaction volumes reliably, but is expensive, slow, and inaccessible in places. For US consumers, noncash transactions can be similarly expensive or inaccessible: US credit card interchange fees average 2 percent, wire transfers are limited to business hours and fees average 11.5 percent, and PayPal/Venmo offer instant payments but charge fees around those of credit cards for customers without an attached bank account.

The authors estimate fees for a \$200 domestic stablecoin transaction, on the other hand, range from 0.1 percent to 0.6 percent. The gains in cost and speed are particularly large for small transfers and for cross-border payments. Global remittance fees average roughly 6.4 percent on a \$200 transfer, while the authors estimate stablecoin-based cross-border transfer fees range from 1 to 4 percent. Furthermore, current payment systems often settle in several days, while stablecoins settle on chain in near-real time, 24 hours a day, seven days a week.

In addition to those direct cost and speed advantages offered by stablecoins, they can also increase competition in the domestic and cross-border payments market, potentially reducing markups and incentivizing innovation in traditional payment methods. For

instance, many banks are beginning to integrate tokenized deposits to improve payment services, and the Fed announced it will increase the availability of Fedwire to six days per week, 22 hours per day. Finally, the authors note that by reducing transaction costs, stablecoins can facilitate small or frequent payments that have prevented economically valuable transactions from occurring.

Since stablecoins are not backed by central bank reserves or federal deposit insurance, however, they may not be convertible to a dollar at all times, which could trigger runs in times of stress. This stress can be amplified by the mismatch between stablecoins' 24/7, near-real time settlement and the legacy infrastructure for settling T-bills (the core of permissible stablecoin reserves) during traditional business hours and on a T+1 basis.

Furthermore, their anonymous nature makes stablecoins attractive options for illicit transactions. Peer-to-peer transactions on public blockchains and self-custody wallets bypass traditional correspondent banking chokepoints and routine bank reporting, weakening sanctions and anti-money laundering and combating the financing of terrorism (AML/CFT) enforcement.

Recommendations:

1. To mitigate these risks, the authors recommend regulations that set capital, liquidity, and risk management standards to ensure convertibility at par. For instance, issuers who want to hold riskier assets, such as uninsured bank deposits, should have higher capital requirements. Access to the Federal Reserve's payment rails through new, limited "skinny" master accounts should be conditioned on stablecoin issuers first meeting these regulations.
2. Policymakers should evaluate tokenizing T-bills to address the mismatch between on-demand stablecoins and Treasury securities that settle T+1.
3. To prevent the use of stablecoins for illicit payments, regulators should also consider restricting stablecoin transactions to registered private wallets held at regulated custodians that meet international AML/CFT standards and consider the feasibility of establishing a global registry of trusted counterparties with which stablecoin users can transact.
4. Issuers should also build mechanisms to give consumers recourse when they are defrauded or make errors.

Do USD stablecoins help US government finances?

Stablecoins were not designed as fiscal instruments. However, stablecoins might reinforce the global role of the dollar and directly increase demand for T-bills as issuers would demand them for their reserve assets. This increased demand can lower borrowing costs for the government.

The net effect of stablecoin growth on demand for T-bills depends importantly on where that growth originated—from domestic bank deposits, domestic currency, domestic money market funds (MMFs), or foreign assets. A dollar of stablecoins is backed by roughly \$0.79 of T-bills. Because MMFs hold T-bills at similar propensities, a dollar of stablecoin growth coming from a dollar currently in an MMF results in no new net T-bill demand. On the other hand, because bank deposits are backed by a lower share of T-bills (\$0.08 of T-bills per dollar of deposit), a dollar of stablecoin growth originating from bank deposits will result in greater net new T-bill demand.

The authors take Citi Research's low-, medium-, and high-growth scenarios of stablecoin growth by 2030 (\$900 billion, \$1.9 trillion, and \$4 trillion, respectively), paired with the sources of that growth and the associated current T-bill holdings of each source. They estimate that the net growth in T-bill demand from stablecoins could lead to a 4.7 percent, 12.1 percent, and 26.3 percent increase in the share of such short-term debt outstanding by 2030 under each respective growth scenario.

Such demand for T-bills would likely lower the average interest cost of US debt, but because this demand is concentrated in shorter-maturity debt, it would also raise the variability in debt service and result in more frequent auctions, which may be undesirable in the current situation with serious concerns about longer-run fiscal sustainability.

Stablecoin growth that comes from reduced currency demand could also cause a loss of seigniorage revenues—coming from interest the government earns on the securities purchased when issuing currency—ranging from \$1.3 billion a year under low growth to \$17 billion under high growth by 2030. Finally, new demand for stablecoins funded by transaction deposits leaving domestic banks could constrain credit availability for individuals and small businesses, although quantifying that effect is challenging since some stablecoins themselves are backed by deposits and affected individuals may find credit from other sources.

Recommendations:

1. The authors recommend that the Treasury review the stability of net new T-bill demand from stablecoins and evaluate how to incorporate that new demand into their models of Treasury debt issuance to determine the optimal debt maturity structure.
2. Policymakers should act to reduce the risk of a sharp decline in local business credit by slowing the conversion of deposits into stablecoins. In the near term, the authors recommend enforcing the existing prohibition on paying interest, which would also provide time to assess stablecoins' effects on payment system integrity. The restriction could be relaxed as issuers demonstrate operational resilience and adequate AML/CFT safeguards.

Should other countries be concerned about USD stablecoins?

Many countries have invested for years in new payment technologies and in the regulation needed to contain their risks. These jurisdictions may experience significant USD stablecoin penetration for domestic use, and foreign governments may worry that if the scale of domestic use of USD stablecoins gets too large, it could erode their monetary sovereignty. Other countries worry that the lack of consistency in regulation of payment stablecoins across jurisdictions could lead to runs outside the US, transmitting stresses to markets with stronger protections. Such concerns may lead to restrictions on usage of USD stablecoins.

Recommendations:

1. US policymakers should engage foreign authorities on their reasonable concerns regarding USD stablecoin use in their domestic economies and seek ways to minimize negative spillovers while preserving the benefits gained by foreign use of USD stablecoins.
2. Design and regulatory choices on USD stablecoins should be made with the assumption that many foreign digital payment initiatives will continue, regardless of what happens in the US.

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