



What are stablecoins good for?

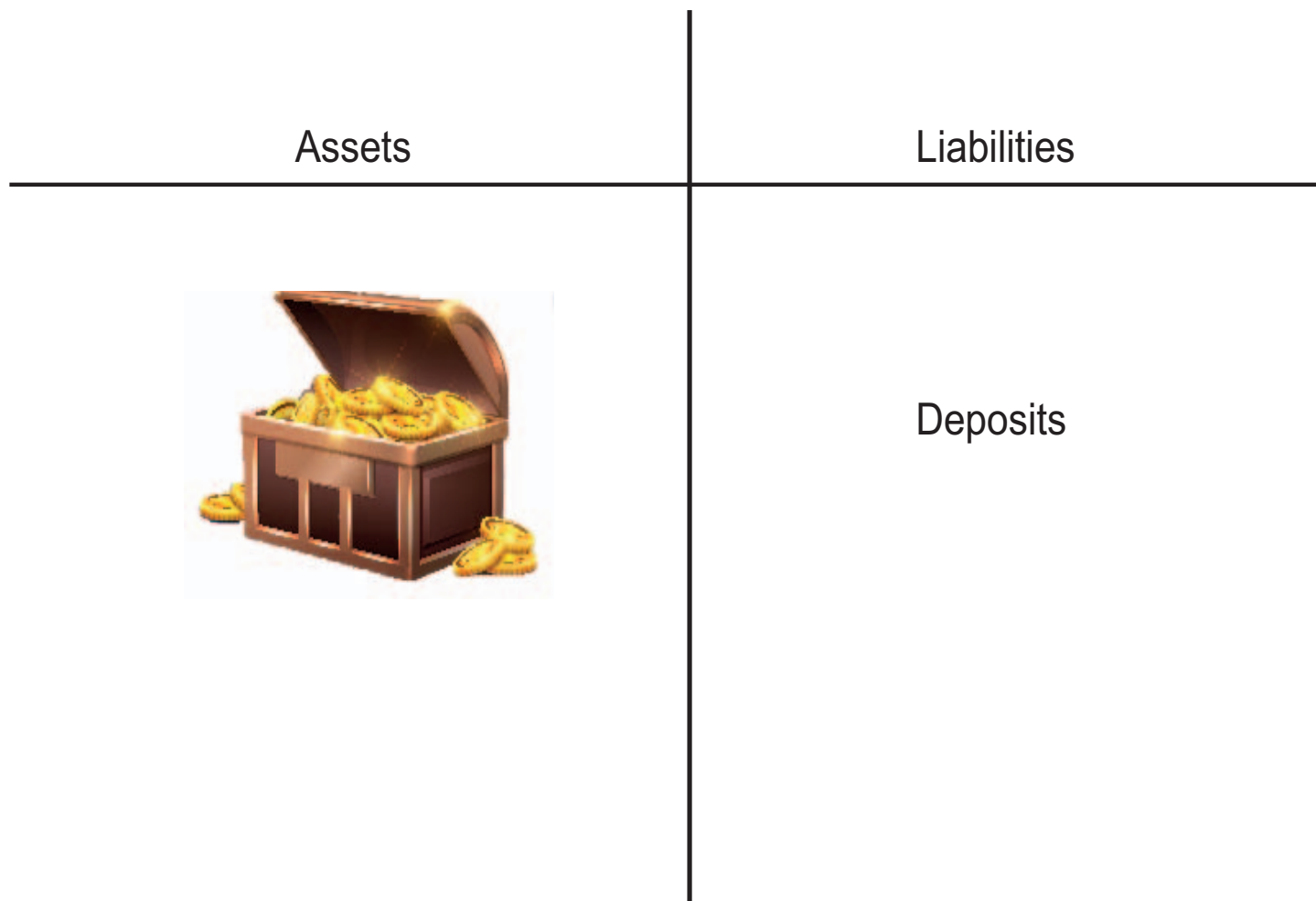
Hyun Song Shin*, Economic Adviser and Head of Research
PIIE-Princeton meeting on the "Future of money in the digital age"
Washington DC, 16 October 2019

*The views expressed here are mine and not necessarily those of the Bank for International Settlements

An early stablecoin: Bank of Amsterdam (1609-1819)



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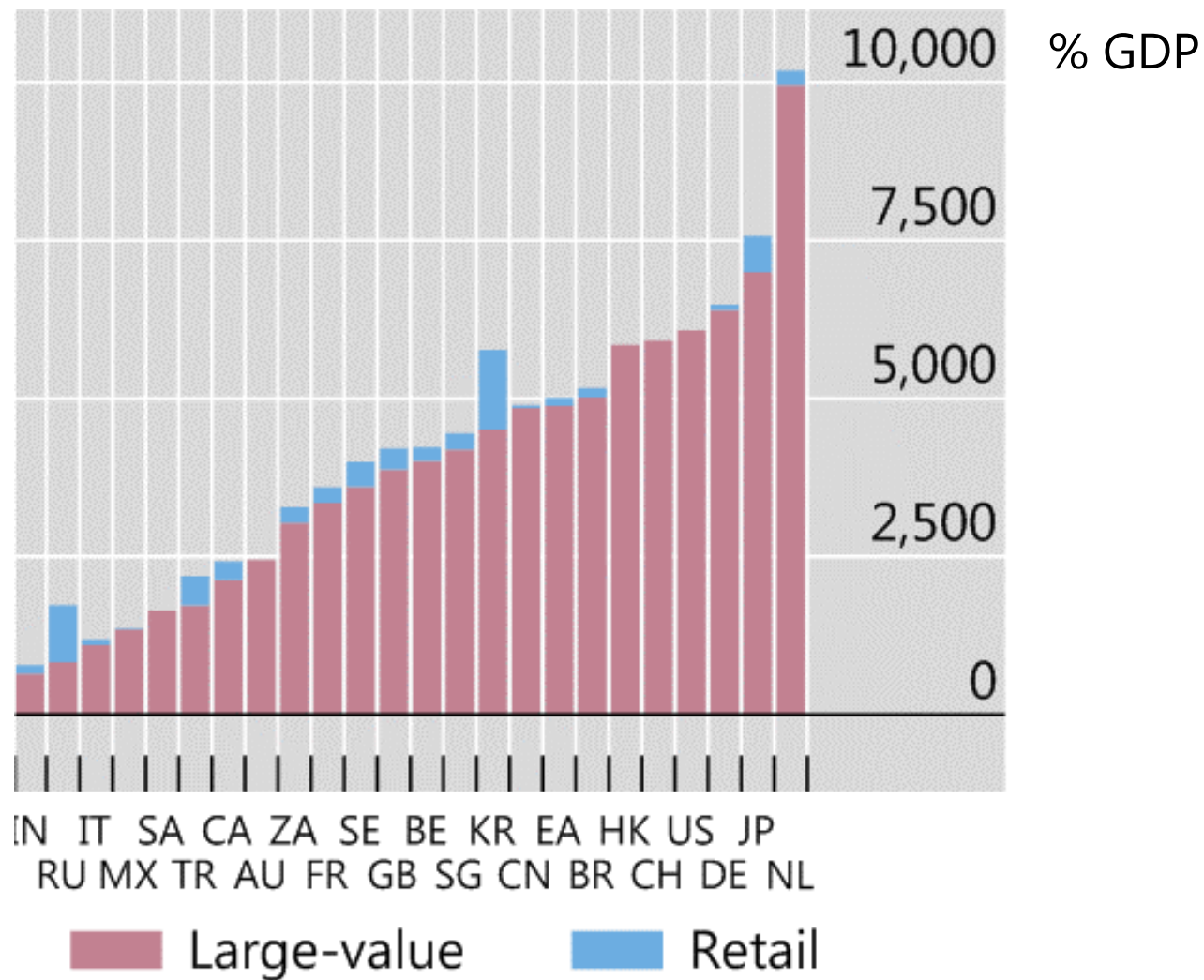
An early stablecoin: Bank of Amsterdam (1609-1819)

“At Amsterdam, however, no point of faith is better established than that for every guilder, circulated as bank money, there is a correspondent guilder in gold or silver to be found in the treasure of the bank”

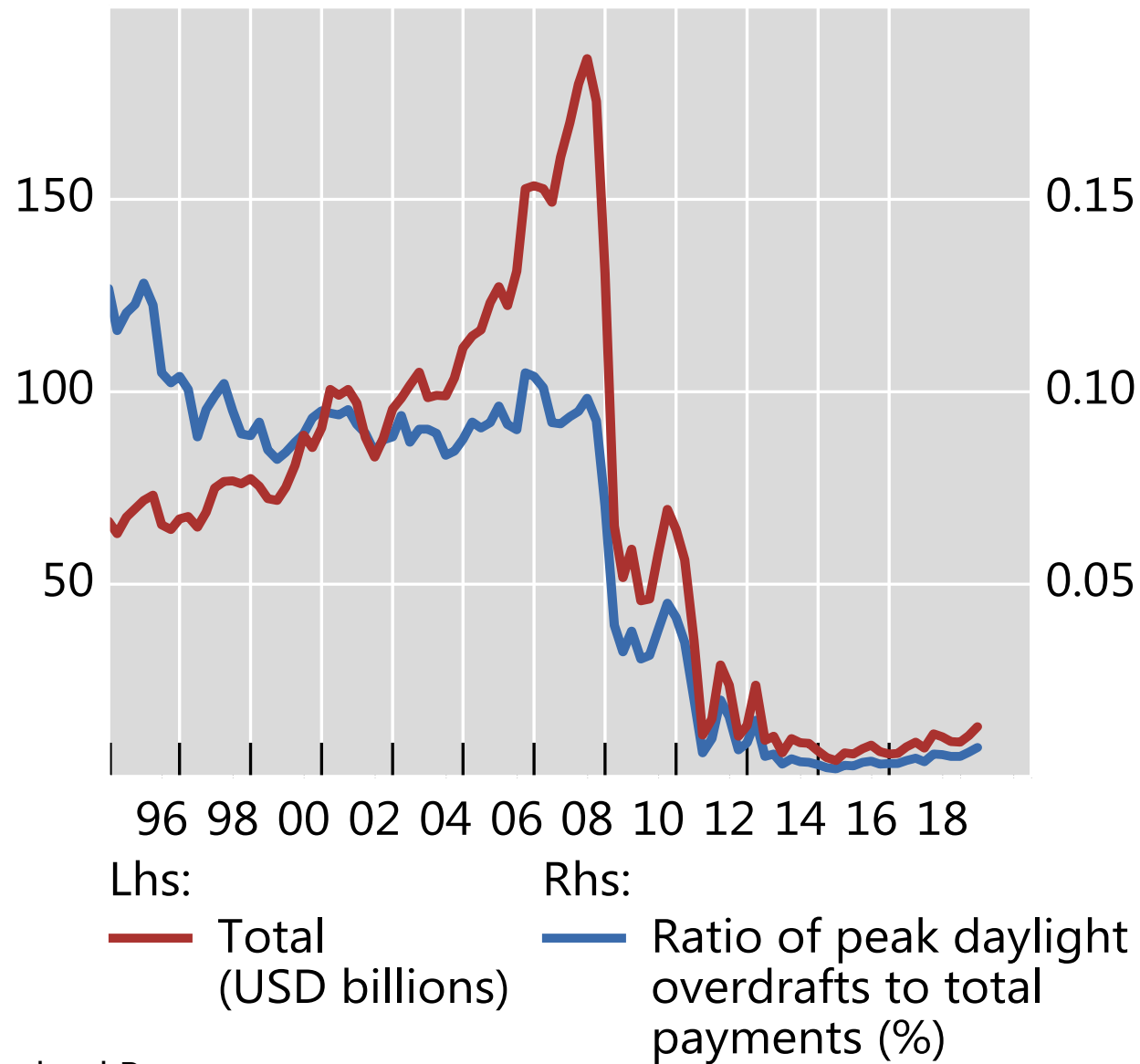
(Adam Smith, *Wealth of Nations*, 1776)

Payments values as percentage of GDP

Source: BIS CPMI "Red book" (2017)

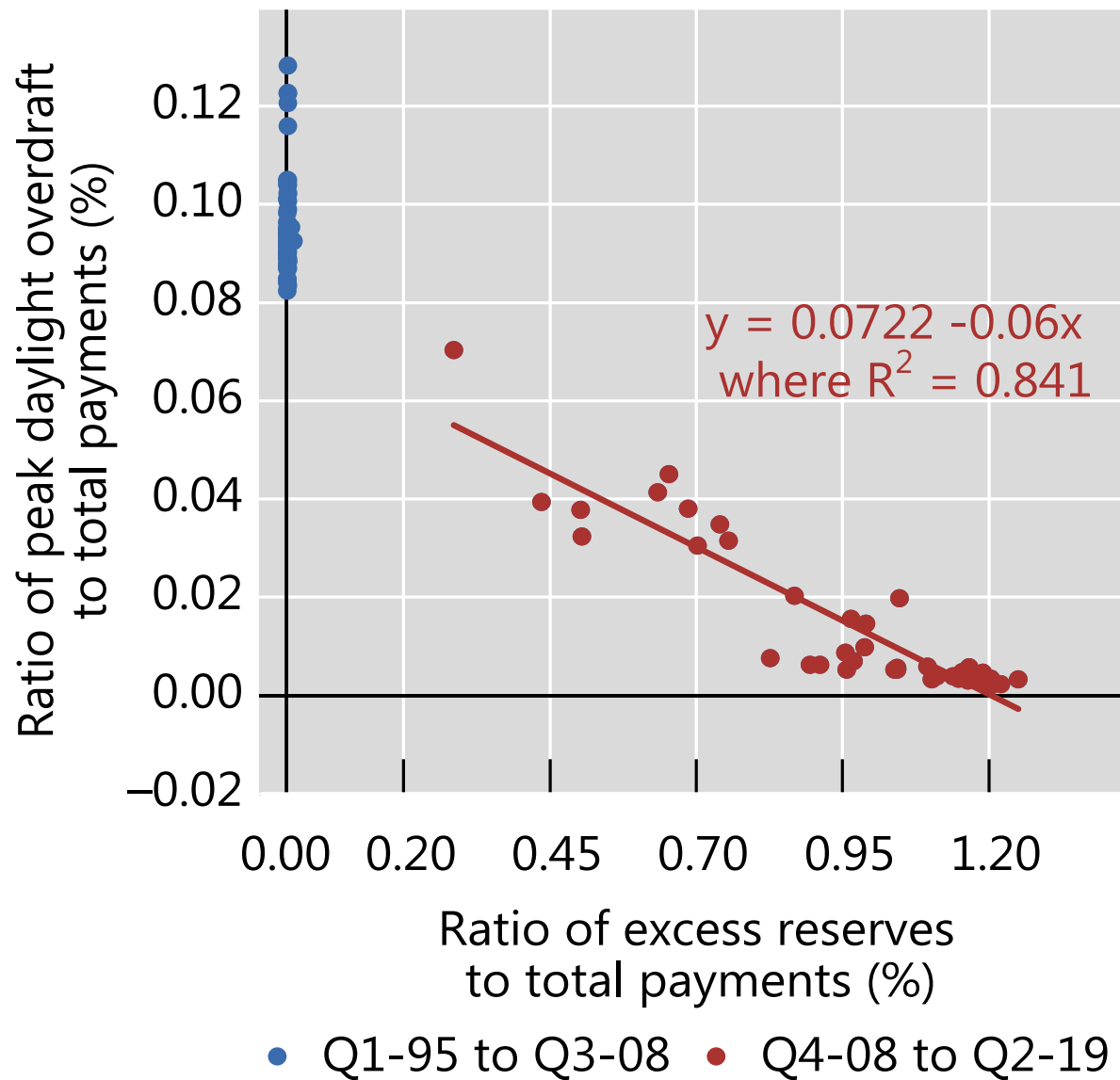


Peak daylight overdrafts on Fedwire



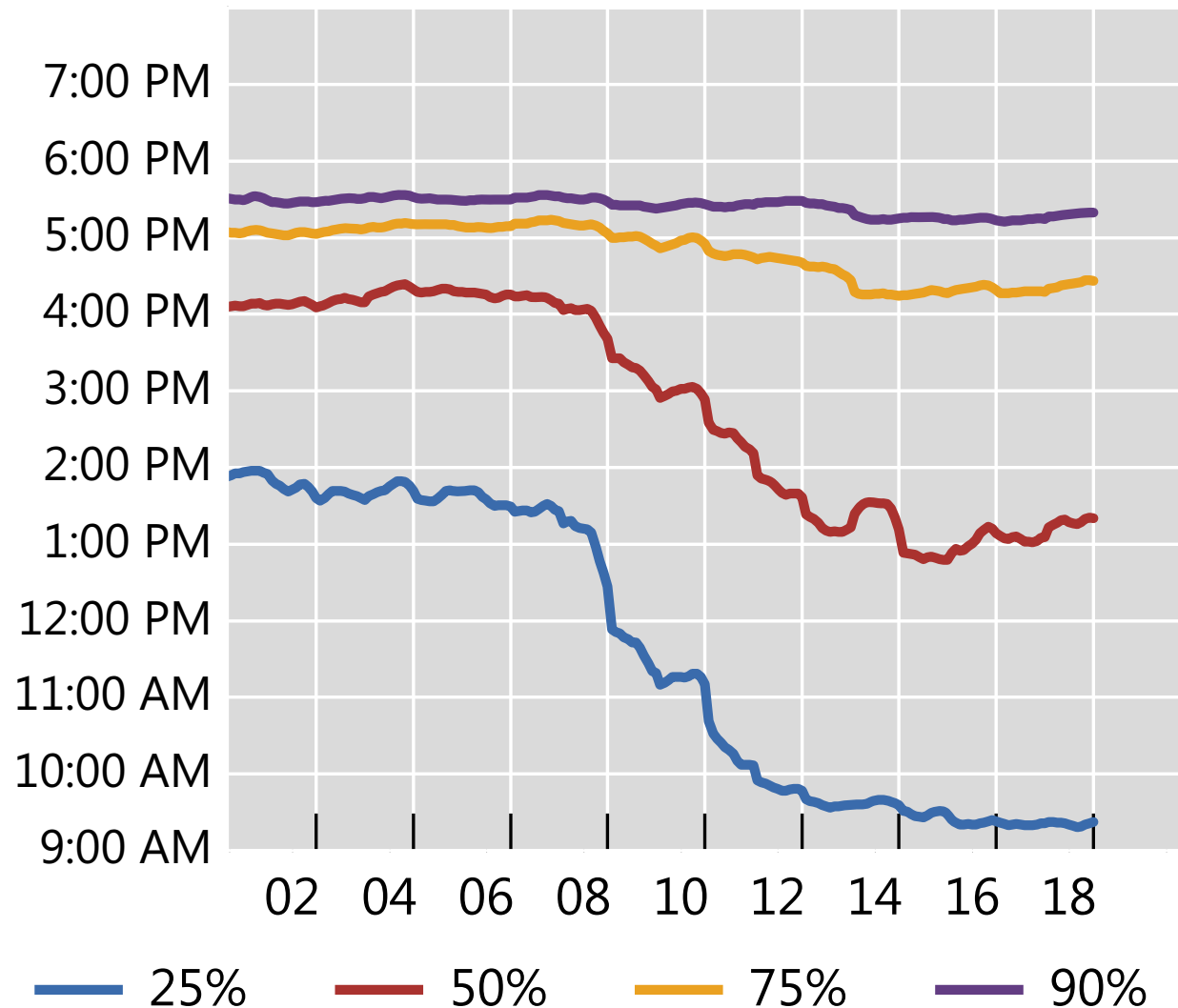
Source: Federal Reserve.

Excess reserves and peak daylight overdrafts



Source: Federal Reserve.

Payment profile during the day for large value payments

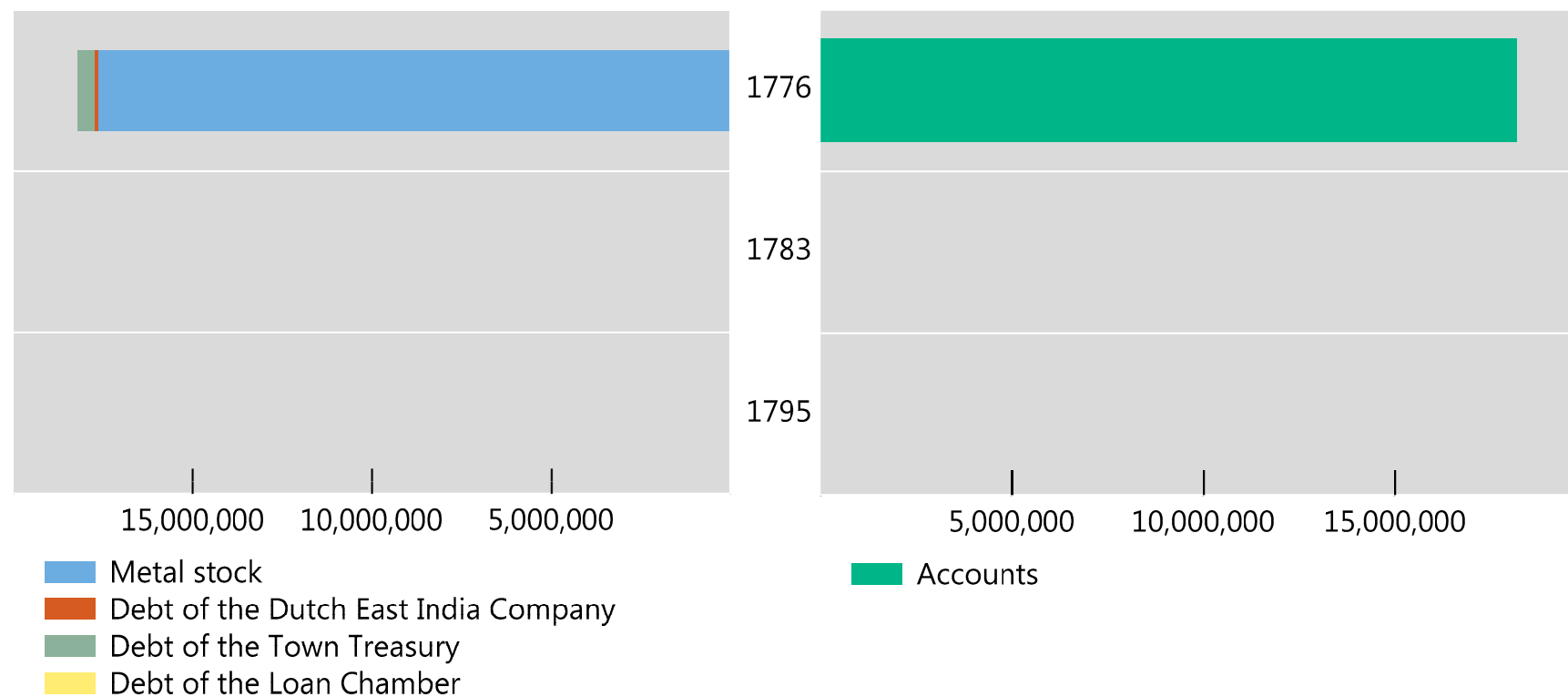


Source: Copeland, Molloy, and Tarascina, "What Can We Learn from the Timing of Interbank Payments?," Federal Reserve Bank of New York *Liberty Street Economics* (blog), 25 Feb 2019.

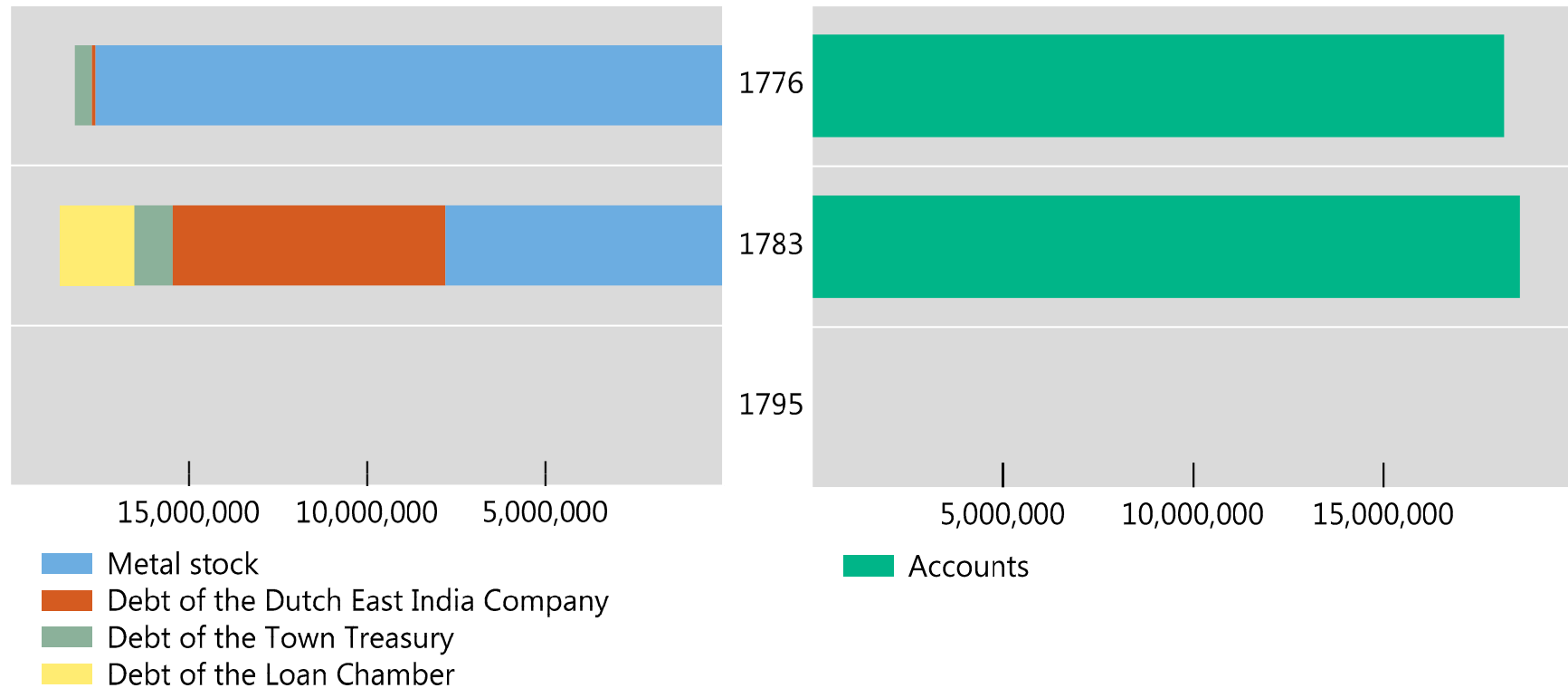


What happens when rigid stablecoin wants
to be an elastic stablecoin?

The Bank in 1776: deposits mostly backed by metal stock

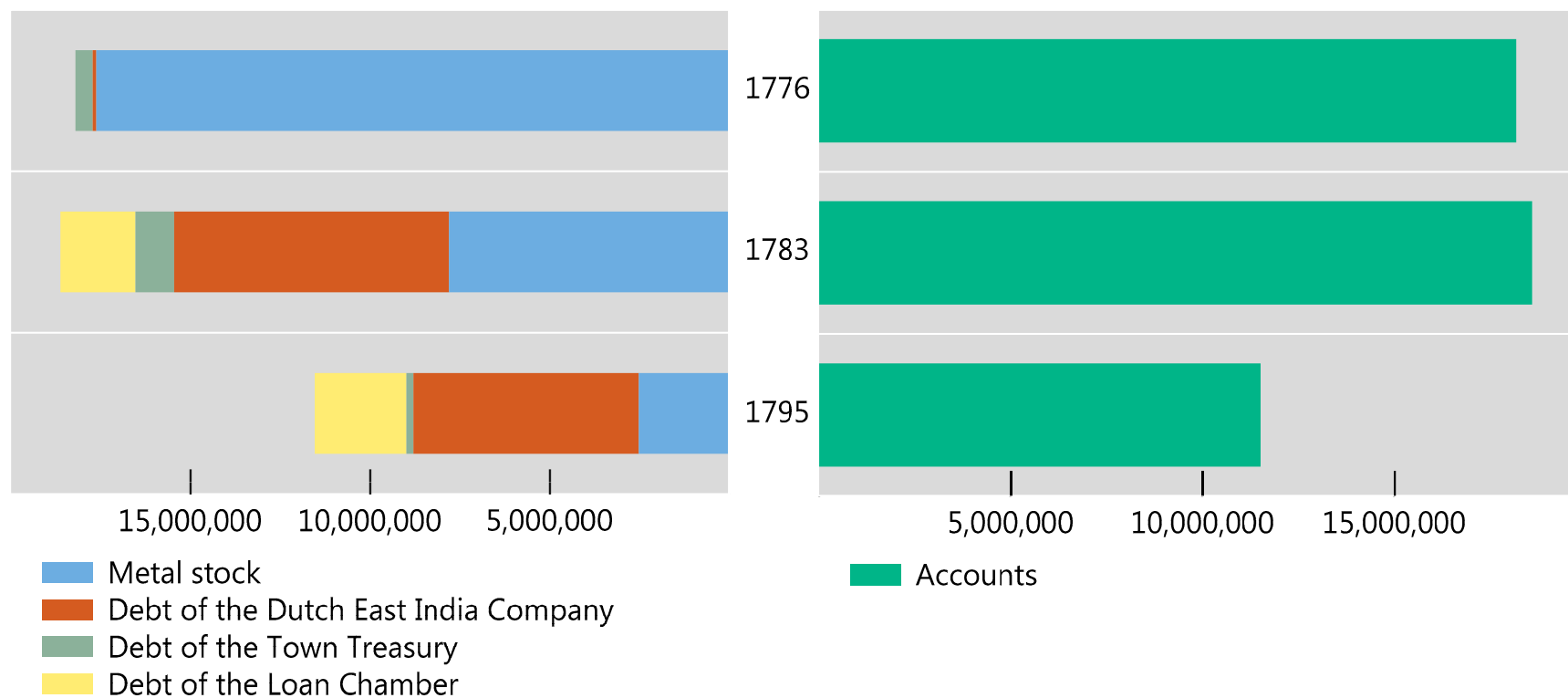


The Bank in 1783: lending becomes more important



"The Regency of Amsterdam authorised the Bank to place at the disposal of the Company [VOC] the sum of 7 ½ million florins. They realized quite well the different and dangerous nature of such a credit" (van Dillen, 1934)

The Bank in 1795: run precipitates collapse



Conclusions

- Rigid stablecoins are not practical for wholesale payments
- They do better for **domestic retail payments**
 - Governance is key to ensure rigid stablecoin remains rigid
 - Plugged securely into the central bank's settlement account (eg, 100% reserve requirement)
 - Token vs account debate is largely beside the point
- There is scope to improve **cross-border retail payments**
 - Of greatest potential impact is digital public infrastructure that allows domestic systems to talk to each other