

The International Monetary System: Are Stablecoins Game Changers?

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Abstract:

The US Treasury champions stablecoins as bolstering the dollar's international reach; yet, the debt expansion they may induce could ultimately undermine that very position. This paper examines how a monetary hegemon optimally adjusts its sovereign debt issuance in response to the rise of stablecoins, and examines the resulting implications for the stability of the International Monetary System (IMS). In a macro-financial framework featuring a Triffin-type trade-off, we model sovereign debt and stablecoins as competing instruments that provide global insurance and liquidity services. We show that different stablecoin policies play differently on the optimal interest rate and the level of debt. In particular, attracting new investors and governmental preferences for stablecoin sector profits raises the hegemon's debt level. We also show that the stablecoin ecosystem can introduce a disciplining effect on debt issuance, working alongside the classical channel of the Triffin dilemma.