

# The Rise of Digital Money

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Based on: Adrian, Tobias and Tommaso Mancini-Griffoli (2019), “The Rise of Digital Money,” IMF Fintech Note, July.



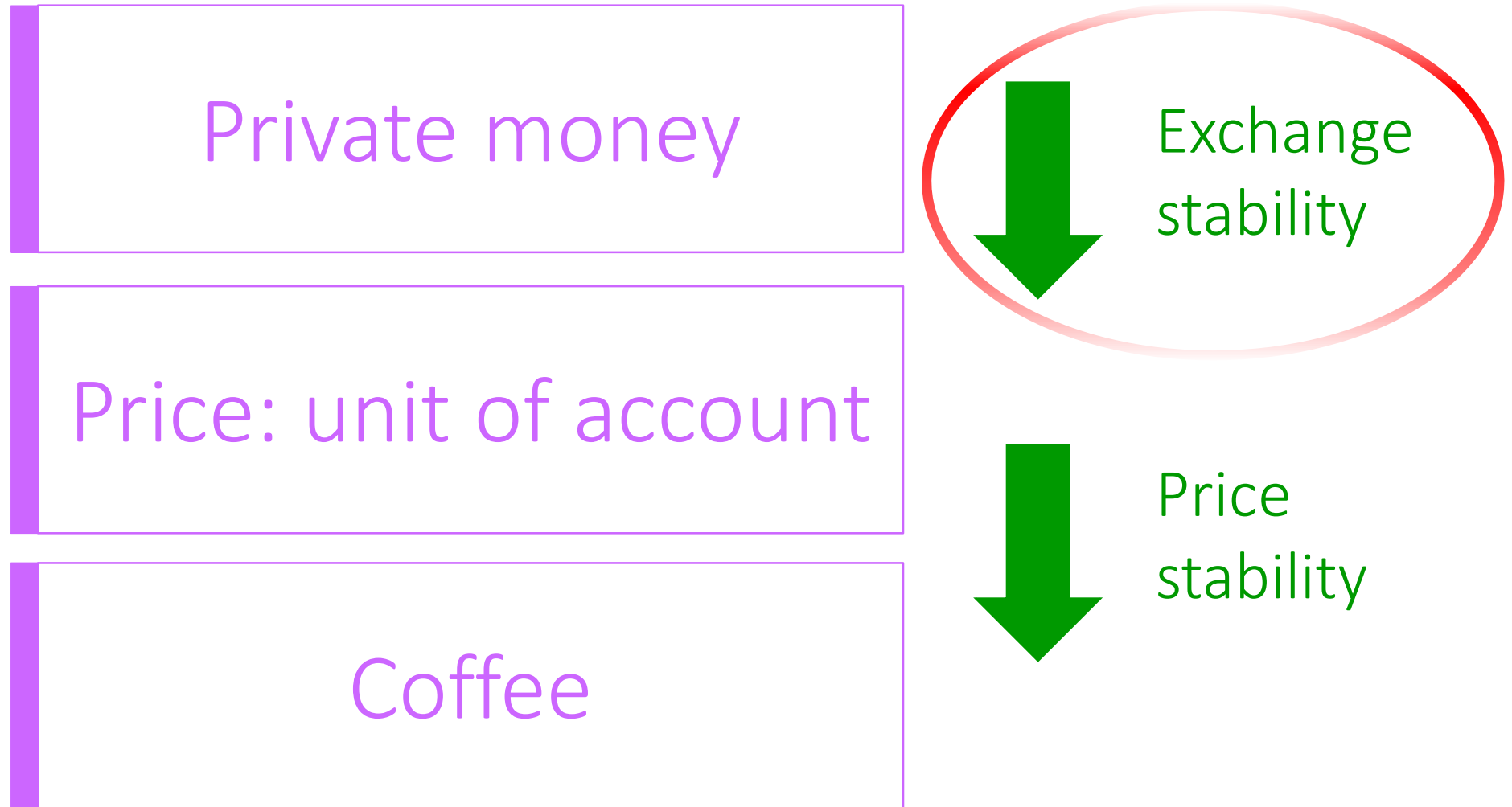
Q: How will you pay?



A: With a stable store  
of value!



# What is stability? Two facets



# Consider Bank Deposits vs. Stablecoins



vs.

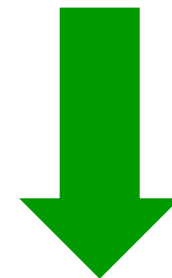


USD Coin



Exchange  
stability

Price: unit of account



Price  
stability

Coffee

# Exchange Stability of Bank Deposits is High



Denomination

Unit of  
account

Exchange  
pledge

Fixed,  
@ face value

Backstop

Government

Backing asset

Mixed

# Exchange Stability of Stablecoins Varies



		sCBDC	E-money	I-money
Denomination	Unit of account	Same as banks	Same as banks	Own
Exchange pledge	Fixed, @ face value	Same as banks	Same as banks	Variable, @ mkt value
Backstop	Government	Private	Private	Private
Backing asset	Mixed	CB reserves	Safe & liquid	Mixed

# Takeaway 1

Multiple stablecoins exist

Of varying “exchange stability”



# Indeed Risks to Exchange Stability

Private  
company

Private  
backing



Claim?

Default

Market

FX

Liquidity

# Takeaway 2

Banks offer better “exchange stability”

## Question

Why hold stablecoins?



A: With a stable store of value  
... and a convenient means of payment



# Stablecoins offer greater convenience

Transaction costs

Cost, speed

Global reach

Cross border

Complementarity

Interoperable, open

Trust & access

Fintechs vs banks

Integrated

User friendly

Network effects

Over large installed bases

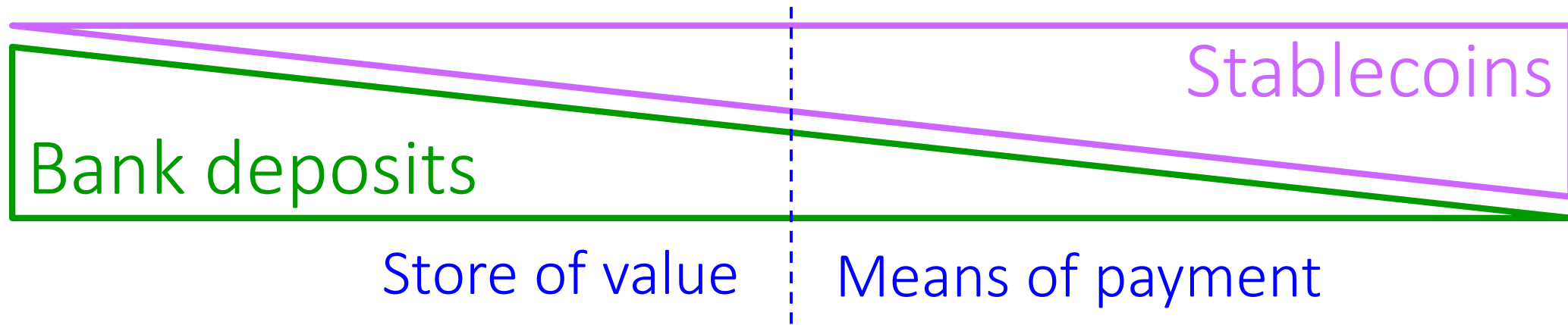


# Takeaway 3

Stablecoin adoption could be high



# Stablecoin adoption could be high... not necessarily at the cost of banks



Banks can offer higher interest...  
Better means of payment.  
Stablecoins can deposit in banks...  
Offer banking services.

# Multiple risks of stablecoins (now widely cited)

Disintermediation

Financial  
integrity

Market  
contestability

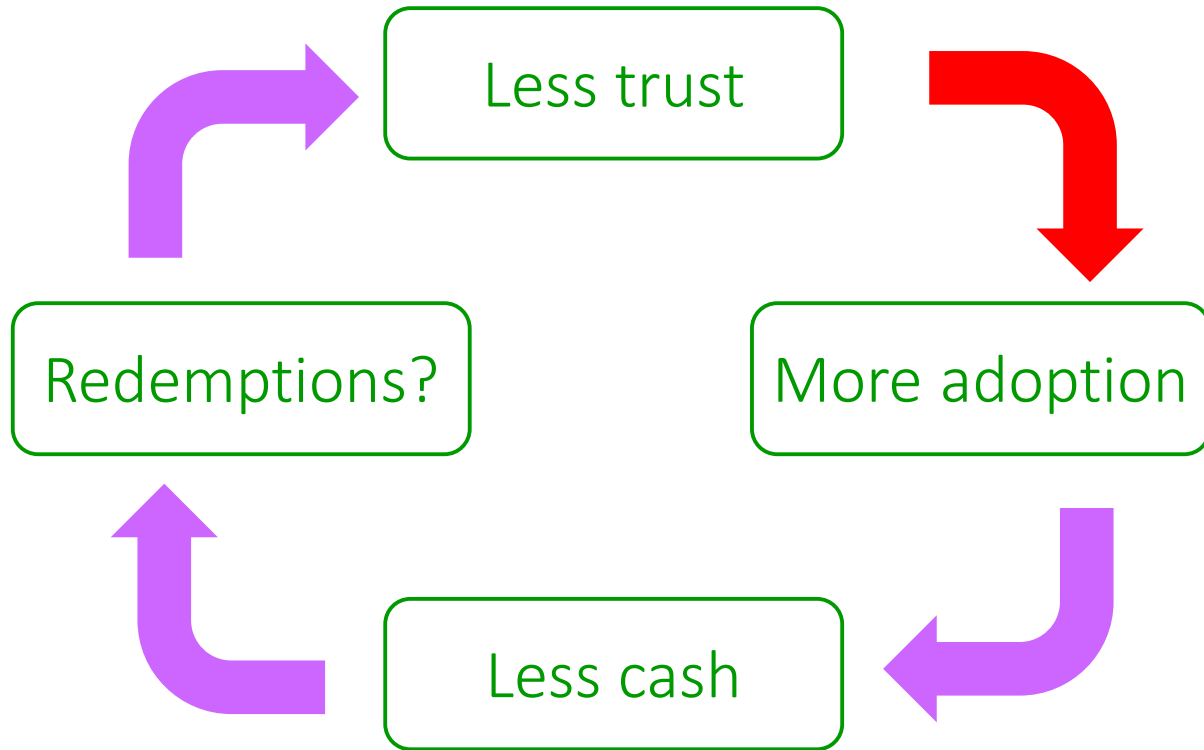
Privacy

Consumer  
protection

Financial  
stability



# But also: the “stablecoin paradox”?



Would you trust stablecoins in a world:

- without cash...
- without access to a CB liability?

Do you need one?

# Paradox 2: exchange stability undermines price stability?

Stablecoin

Domestic unit of account

Coffee



# Paradox 2: exchange stability undermines price stability?

Stablecoin



Exchange stability

Domestic unit of account



Price stability

Coffee

- No demand for CB reserves as settlement asset?
- Dollarization from foreign stablecoins?

# Question

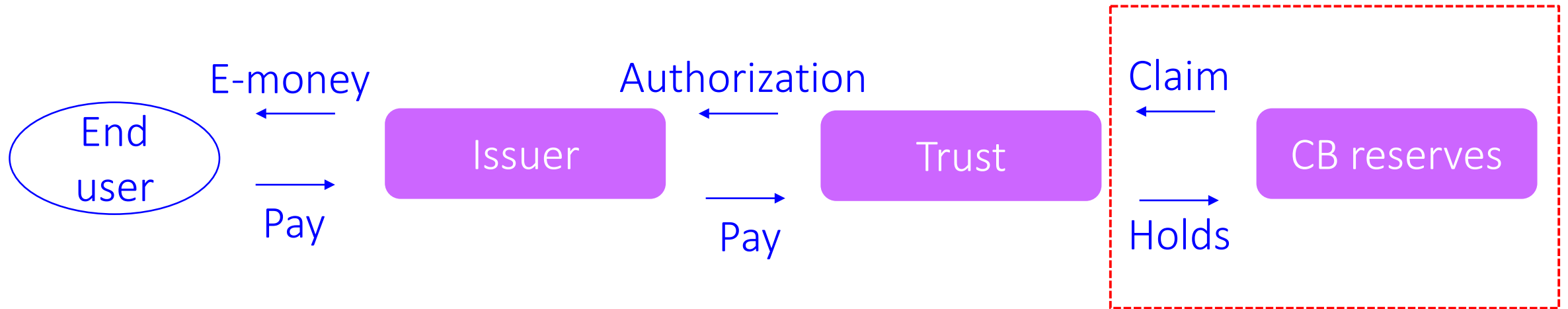
How to tackle risks and avoid paradoxes?



# One option...



# Birth of synthetic CBDC → sCBDC



- Close to holding, and transacting in, central bank liability!
- Simpler, cheaper, safer.
- Public-private partnership...
- conserving comparative advantages.

# Advantages of sCBDC (though new risks emerge)

Addresses some risks of stablecoins...

Exchange stability

Interoperability

Regulatory clarity

...and paradoxes

No redemption

Limit dollarization

Could pay interest



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