Stablecoins – Do They Have a Role in the Financial System[1]

I. Introduction

Distinguished industry leaders, colleagues and guests.

1. It is a privilege to be able to stand here and talk to such a learned gathering and I am thankful to Mint for inviting me.
2. Money, as we know it, has been a central pillar of human society for centuries, enabling trade, facilitating economic activity, and underpinning the very notion of trust in social and financial interactions. Over time, the form of money has evolved with technology - from commodities to metal to paper to balances in deposit accounts to now, digital tokens. While the forms of money have evolved with technology, the fundamental character of money - what it represents, or what gives it credibility – has always been that it represents value that has users' trust. That value is either intrinsic (metal money) or derived from a promise to pay (paper money or deposit money) by a trusted person. Theoretically, money can be issued by any person as long as he has the trust of the users. The more stable forms of money in history have, however, always been issued by sovereigns, not by private issuers. Examples of private money (money issued by non-sovereigns) can be found in history but they have not been stable arrangements. In practice, therefore, money has credibility because its value is promised by the sovereign.
3. This fundamental character of money is under challenge from cryptocurrencies. Not in terms of technology, as money in the form of digital tokens can exist

[1] Keynote address delivered by Deputy Governor Shri T Rabi Sankar at the Mint Annual BFSI Conclave 2025 on December, 12, 2025 in Mumbai

without changing the nature of money itself. But the fundamental challenge of cryptocurrencies is that they claim to change the very nature of money – because cryptocurrencies do not represent value either in terms of intrinsic worth or in terms of promise to pay. In my talk today, I propose to explore what the nature of such challenge is, and what are the implications of cryptocurrencies for the financial system as we know it.

4. To be able to understand the nature or character of money, we need to look a little deeper.

II. Attributes of Money

5. In a modern economy, there are two types of money viz., currency and bank deposits – currency (physical) is issued directly by the State (through its central bank) while deposits (digital) are issued under license by commercial banks. All money is issued either directly by the central bank or indirectly through banks authorised by it. Thus, all money in modern economies is effectively FIAT in nature. It is this fiat or sovereign aspect of modern money which creates 'trust' in money and provides it stability.
6. A second defining feature of modern money is "Singleness", the property that different forms of money in an economy viz., cash, deposits, are denominated in a single unit and interchangeable at par. This 'Singleness' also arises from the fact that settlement of all transactions take place in central bank money. 'Singleness' of money ensures that trade and commerce are smooth without any concern for the value of different types of money. Ultimately, in modern economies, the fact that all "money" is fiat also ensures that money is SINGLE.

7. Let us now sum up our understanding of what money has evolved into – that money represents VALUE trusted by users, that money is FIAT and, that money is SINGLE.
8. Let us now see how a cryptocurrency measures up to these attributes of money.

III. Attributes of Cryptocurrency

9. The historical evolution of Cryptocurrency is the outcome of decades of search for a cyber solution for total anonymity of transactions outside of state control. The creation of Bitcoin in 2008 was the result of that search. Bitcoin, or rather, the Blockchain, the technology underpinning the Bitcoin, demonstrated that a digital token can be transferred between unknown counterparts without the need for an intermediary. The technology was revolutionary. But the Bitcoin itself was just a tool to demonstrate the technology, it had no value, either intrinsic or as a promise to pay. It was not money. The price of Bitcoin today does not represent value in the sense money has value. This value is purely speculative like the price of a tulip during the tulip mania of the seventeenth century.
10. To summarise, cryptocurrencies have no intrinsic value. They are not backed by a promise to pay, that is, they have no issuer. Since they do not meet the basic attributes of money, they are not money. In fact, since they do not have any underlying cash flow, they are not financial assets as well, or, for that matter, any asset at all.
11. How about Stablecoins, which are cryptocurrencies against which the “issuer” holds reserves to maintain a stable value. Since they are pegged to a fiat currency, they can perform the functions of a currency. Also, as they are backed

by financial or other assets, they do represent value. Therefore, they have some of the basic attributes of a money. However, we need to keep in mind two factors.

a. Is there a promise to pay? For stablecoins to be money the issuer needs to promise to pay par value to the holder. It is not clear whether Stablecoins are the liability of their issuers. It would appear that neither of the two major cryptocurrencies in use today make such unconditional promise.
b. Assuming such a liability is legally established, the next point to keep in mind is that stablecoin is private money. Thus, stablecoins fail to satisfy the two defining features of modern money, viz., (i) money as fiat and (ii) singleness of money. It is possible that in a stablecoin system, there would be hundreds, or more, of currencies in an economy making any such system inherently unstable.

12. Since we can reasonably establish that unbacked cryptocurrencies are not assets and merely speculative bets, akin to betting on a gambling event, we would focus, in the rest of this talk, on Stablecoins, which are close enough to money to pose a significant challenge to the financial system. First, let us look at the benefits of stablecoins that their proponents claim they have.

IV. Benefits of Stablecoins

13. Proponents of stablecoins present a range of claims, the more important of which are, improved cross-border payment efficiency, greater financial inclusion, and the ability to drive digital financial innovation.

Efficient cross-border payments

14. An oft cited benefit is that stablecoins can make payments, particularly cross-border payments faster, cheaper and more efficient. In the domestic space, real-time fast payment systems such as UPI already enable fast, low-cost, and reliable payments, and there is no reason to believe that stablecoins would be superior from the point of view of cost or speed or reliability. In the cross-border space, stablecoins can potentially enable faster and perhaps cheaper payments than what the current corresponding banking system provides, mainly because stablecoins do not face settlement risks. On the other hand, it is not certain that stablecoin issuers would have the same degree of acceptability as international banks that are closely regulated and backstopped by central banks. Also, the purported efficiency is doubtful when there are a large number of stablecoins in the ecosystem.

Improve financial inclusion

15. Another claim often made is that stablecoins enhance financial inclusion by providing access to digital money for those outside of traditional banking systems. Financial inclusion requires solutions that are accessible, affordable and safe. Many countries have made substantial progress in financial inclusion through digital public infrastructure and simplified account opening frameworks without the need to create parallel private forms of money. The inherent instability of stablecoins means they are clearly inferior alternative to fiat money as tools of financial inclusion. As stablecoins remain dependent on smartphones and digital wallets, internet connectivity and technical know-how,

they may not be available to those segments of the population that are most in need of financial services.

Bridge to the real economy

16. Finally, supporters of stablecoins often argue that they can act as a bridge for the crypto ecosystem to the real economy. Yet the evidence today indicates that stablecoins remain primarily used as instruments to facilitate trading and leverage within the crypto market itself. Their role as meaningful transactional currency in everyday economic activity remains limited.
17. To sum up, many of these benefits are neither unique to stablecoins nor have stablecoins yet established any of the benefits their proponents claim. By their very nature, they are in many ways inferior to available forms of money in achieving those benefits. On the other hand the risks they introduce to financial stability, and broader macro-financial stability are extremely serious. We will now take a closer look at these risks in detail before considering how India should approach stablecoins.

V. Risks of Stablecoins

18. Beyond the facilitation of illicit payments and circumvention of control measures, stablecoins raise significant concerns for monetary stability, fiscal policy, banking intermediation, and systemic resilience.

Risk of Currency Substitution

19. A core risk of stablecoins is currency substitution. Their design as currency-like instruments introduces the potential for currency substitution, particularly in

emerging markets, where they could compete with domestic fiat money. Stablecoins, whether denominated in domestic currency or foreign currency, would reduce demand for the local currency and raise the risk of dollarisation.

Risk to Monetary Policy

20. Widespread adoption of stablecoins would undermine central banks' ability to control money supply and interest rates. '*If both an official currency and a crypto asset are used for pricing goods and services, domestic prices could become highly unstable due to the inherent volatility of the crypto asset.*' (IMF-FSB 2023). If residents increasingly hold or transact stablecoins, changes in domestic policy rates may have limited influence on economic decisions, weakening the effectiveness of monetary policy.

Weakening Capital Account Management

21. Stablecoins pose challenges for capital flow management (CFM) as domestic households diversify their balance sheets by including foreign-currency denominated stablecoins. This trend would make it difficult for authorities to implement capital controls, which are a critical instrument for financial stability in many emerging markets, including India. The pseudonymous nature of blockchain transactions compounds these risks as it creates channels for unmonitored inflows and outflows, diluting the effectiveness of CFMs and complicating both macroeconomic management and external sector oversight.

Bank and Credit Intermediation

22. Banks are the primary entities that intermediate between savers and investors in an economy. This ability derives from banks' role in credit creation. To the extent stablecoins replace bank deposits, banks would lose their role in financial intermediation. This would result either in a rise in cost of credit as banks lose access to low-cost deposits, or banks having to depend on the central bank to provide the liquidity required to fund credit. A financial system that has to increasingly depend on central bank liquidity to fund commercial credit would not sustain.

Systemic Risks

23. The combination of weakened banks, reduced monetary policy effectiveness, and limited capital account management amplifies systemic vulnerabilities. Large-scale stablecoin adoption could expose domestic economies to external shocks and cross-border volatility, leaving traditional policy instruments less effective in managing financial stress.

Loss of Seigniorage

24. When a central bank issues currency, it receives equal value that is invested in assets like Government securities which are used to back the currency issued. These assets earn a return, which is significantly higher, than the cost of printing and issuing money. This difference – higher returns against lower cost of issue – is seigniorage income, which is transferred to the Government. Since currency issue is a social function, seigniorage income rightfully belongs to the Government, as the representative of the people. There is no case for

seigniorage to accrue to private profit-making entities. Yet, this is exactly what Stablecoin issuers earn as income. Seigniorage, which is inherently a sovereign revenue arising from the issuance of fiat money by the central bank, is thus diverted to private operators, often located outside the home jurisdiction, if stablecoins are dominated in a foreign currency. It is likely that most countries will see a leakage of seigniorage income to private issuers of Dollar linked stablecoins. This loss of Government revenue does not receive the serious focus it deserves, not even from central bankers.

Domestic-Currency Stablecoins Are Not Risk-Free

25. Some argue that permitting domestic currency denominated stablecoins would not involve these risks. While such instruments may reduce risks to capital account concerns, the fundamental vulnerabilities such as currency substitution, bank disintermediation, reduced monetary-policy control, singleness and loss of seigniorage income remain. This is the reason why advanced economies are not immune to the risks posed by stablecoins.
26. Stablecoins introduce real and severe risks ranging from monetary and fiscal disruption to banking disintermediation, to systemic instability. The risks are significantly higher for EMDEs, but they are also major risks for AEs. Understanding these vulnerabilities is critical before considering regulatory frameworks or policy adoption. It is not surprising then that global policy bodies and standard-setting organisations continue to highlight the risks of stablecoins.

VI. Global Policy Responses

27. Financial Stability Board (FSB) attempted to create a baseline for the regulation of global stablecoin arrangements through its High-level Recommendations[2] issued in 2023. But even these recommendations explicitly admit that they do not address virtually any of the major risks associated with Stablecoins – risks that particularly matter most to jurisdictions like ours. The IMF and FSB joint Synthesis Paper of 2023[3] also recognised that EMDEs face a distinct and amplified set of vulnerabilities. In its 2025 Annual Economic Report, the BIS points out that stablecoins fail the basic tests of singleness, elasticity, and integrity that any form of money must meet and are hence structurally unsuitable to anchor a monetary system.

28. The asymmetrical risks to EMDEs often does not receive the importance it merits. Stablecoins are borderless instruments operating in a world of borders. If one jurisdiction with a liberal capital account allows unrestricted use of stablecoins, and they circulate widely in a neighbouring country with capital controls, the financial stability of the latter can be fundamentally undermined. Issues critical to the stability of EMDEs are often acknowledged but not prioritised.

29. So, what does all this mean for a country like India? How should we deal with stablecoins and safeguard financial stability and monetary sovereignty? These questions naturally lead us to consider the domestic policy imperatives that must guide India's approach in this evolving global environment.

[2] High-level Recommendations for the Regulation, Supervision and Oversight of Global Stablecoin Arrangements, July 17, 2023 https://www.fsb.org/uploads/P170723-3.pdf
[3] https://www.fsb.org/2023/09/imf-fsb-synthesis-paper-policies-for-crypto-assets/

VII. Policy Approach for India – Promote CBDCs - Harness Innovation and Protect Stability

30. For India, the approach to stablecoins must be guided by caution and an appreciation of domestic imperatives. Stablecoins can undermine trust in the currency and finance system. India already benefits from a payments landscape that is highly efficient, reliable, and robust. Systems such as UPI, RTGS, and NEFT provide fast, low-cost, and secure payment capabilities to millions of users. This leaves little justification for their integration into the financial system, even before considering the broader risks they pose. India's policy on stablecoins must be driven by domestic priorities.

31. At the same time, India must acknowledge the promise of innovation that technologies such as blockchain and tokenisation bring. A central pillar of this strategy is the adoption and cross-border readiness of Central Bank Digital Currencies (CBDCs). CBDCs are digital tokens like stablecoins yet they are inherently superior since they satisfy all the attributes that money should have – fiat, single, trusted and representing value - and do not pose many of the risks associated with stablecoins. They can perform all the functions stablecoins claim to offer such as programmability, atomic settlement, lower cross-border frictions, while being fully anchored within the existing financial system. Encouraging CBDC use domestically is essential and can be done by making CBDC functionally similar to physical cash, especially with respect to tiered anonymity. For example, ensuring anonymity for small-value CBDC transactions, much like cash, would provide users comfort and trust while preserving safeguards for high-value flows. Such an approach also avoids disintermediation risks for the banking system.

32. The cross-border dimension is even more critical. Much of the appeal of stablecoins lies in their promise of cheaper, faster international transfers. But the same efficiency can be achieved through bilateral or multilateral CBDC corridors. This is an area where India can play a shaping role, by helping build the case for interoperable CBDC arrangements among emerging markets and beyond.

33. A third pillar of India's approach should be the interlinking of fast payment systems (FPS). Interlinking domestic FPS directly contributes to the G20 objectives of faster, cheaper, more accessible and transparent cross-border payments. The recent linkages between UPI and several partner jurisdictions are important steps forward, increasingly reducing the need for any private digital alternatives for remittances.

34. Finally, as we weigh policy choices, we must also address a central argument often made by proponents of stablecoins who claim that the associated risks can be managed through regulation. Regulation can indeed mitigate some risks, but the larger question remains: Can we afford to experiment with the foundations of global monetary and financial stability that have been carefully built over the years for instruments that lack the safety features of money, that are inherently risky and that remain untested at scale? As highlighted in the BIS Annual Economic Report 2025[4], society faces a clear choice which is either to strengthen the monetary system using proven foundations of trust and advanced, programmable technologies, or to risk repeating the hard lessons of history by relying on unsound private digital currencies with real societal costs.

[4] (BIS 2025). https://www.bis.org/publ/arpdf/ar2025e3.htm

VIII. Conclusion

35. We have seen that stablecoins lack the basic attributes of money, their advantages are neither unique nor unambiguous and their risks are all too real. It may be noted we have not referred to the risks associated with the assets that back a stablecoin. That is because it does not matter, for either the benefits or the risks of stablecoins to materialise.

36. In fact, the bigger threat is a stablecoin that works well. India stands at a decisive policy crossroads. Despite India having good macroeconomic conditions and sound policies, the domestic factors and compulsions must be considered when evaluating policy options for stablecoins. The choices made today will impact the future of our monetary system and financial sector integrity. India's strategy must be clear and coherent, anchored in four key principles:

    a. Preserve trust in the national currency, monetary and payment system
    b. Safeguard monetary sovereignty and macro-financial stability
    c. Encourage responsible innovation through CBDCs and interoperable payment systems, and
    d. Ensure that innovation strengthens, rather than bypasses, the regulated financial system.

37. I will end with my response to the question posed in the title of this speech. Do stablecoins serve a purpose? It seems to me that they do not; at any rate, they do not serve a purpose that cannot be served better by fiat money.

Thank you.