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Hélène Rey

Internationalisation of Currencies and Crypto-Currencies

Draft version

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Five Questions

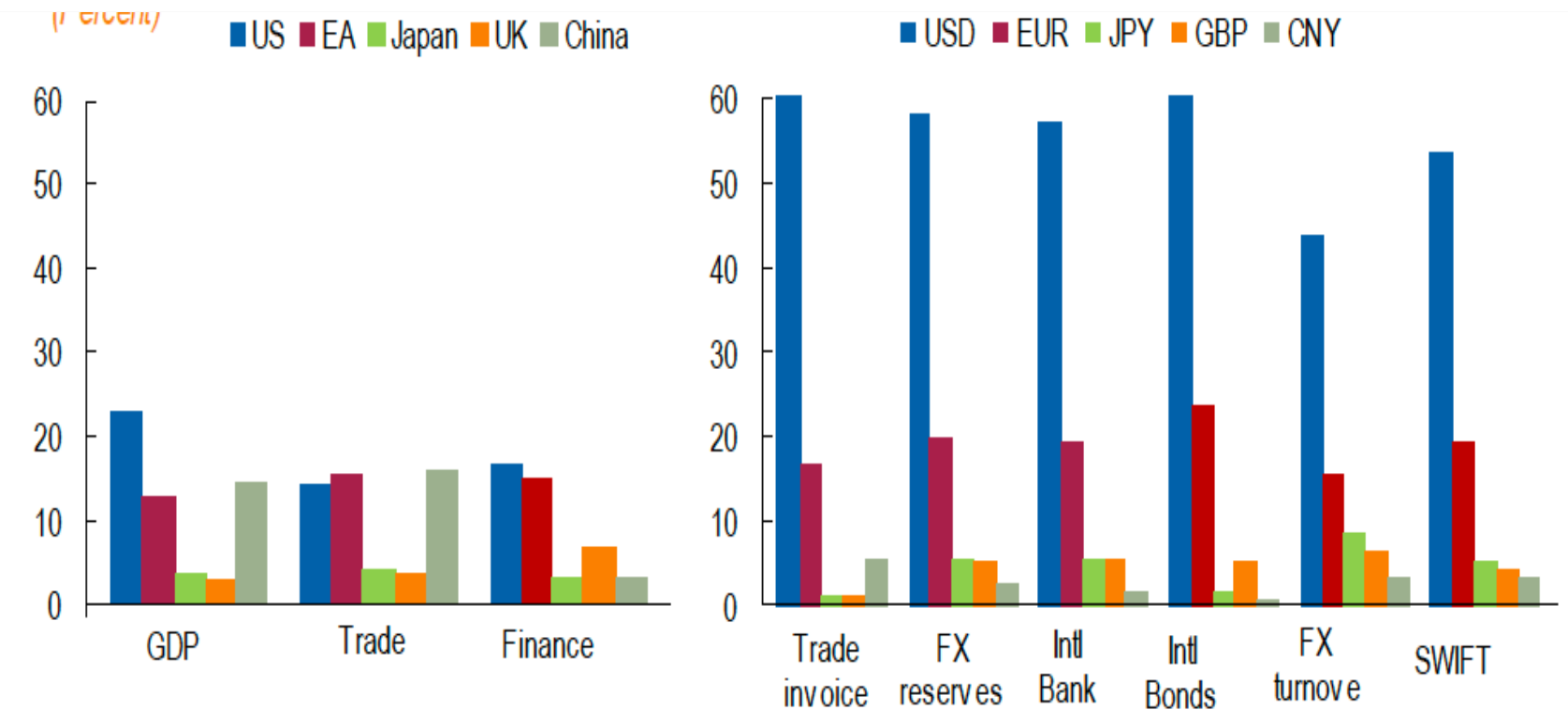
Based on forthcoming CEPR Barcelona Report

1. What are the key roles of international currencies?
2. What are the international use cases of crypto and stablecoins today?
3. Does tokenisation change internationalisation?
4. Can we even measure cross-border crypto flows?
5. What are the macroeconomic consequences of the internationalisation of cryptos?

International currency roles

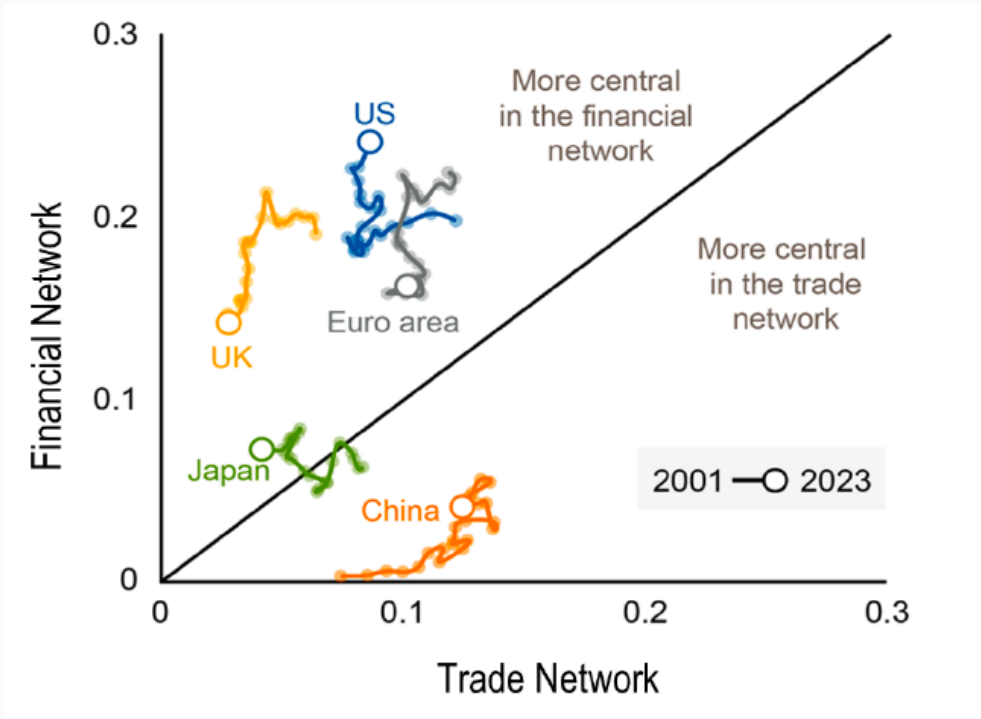
Function	Private sector	Official sector
Medium of exchange	Vehicle currency; liquid FX markets	Intervention currency; lender of last resort
Store of value	Securities issuance; safe asset	Foreign exchange reserves
Unit of account	Trade invoicing; bond denomination	Exchange rate pegs

The Dollar Dominates Along Every Dimension



Source: IMF External Sector Report (2025). Values are approximate % shares.

Country Centrality in Trade and Financial Networks over 2001-2023



Notes. Measured by eigenvector centrality. Each dot represents annual value of the centrality measure of a country in trade and financial network. Eigenvector centrality measures the importance of the node given its size, number of connections, and importance of connections.

A Brief Monetary History

Gold Standard

pre-1944

Gold as ultimate settlement. Sterling dominant. Tight external constraint on monetary policy.

Bretton Woods

1944–1971

USD replaces sterling.
Dollar convertible to gold.
Capital controls.

Fiat Money

1971–today

Constraint shifts to institutional credibility.
US Treasuries safe-asset as backbone. Dollar stays dominant.

Tokenised Money

emerging

Tokenisation reduces payment frictions. Does it change which currencies internationalise?

Internationalisation of Crypto Money Instruments

Native Tokens

Examples

Bitcoin, Ether

Market cap

\$1,400 bn

Trust basis

Algorithm (internal)

Intl prospects

Scalability limited

Stablecoins

Examples

Tether, Circle

Market cap

\$300 bn

Trust basis

Credibility of peg + “free ride” on currency attributes (\$)

Intl prospects

Growing?

Tokenised Deposits

Examples

JPM Coin

Market cap

Nascent

Trust basis

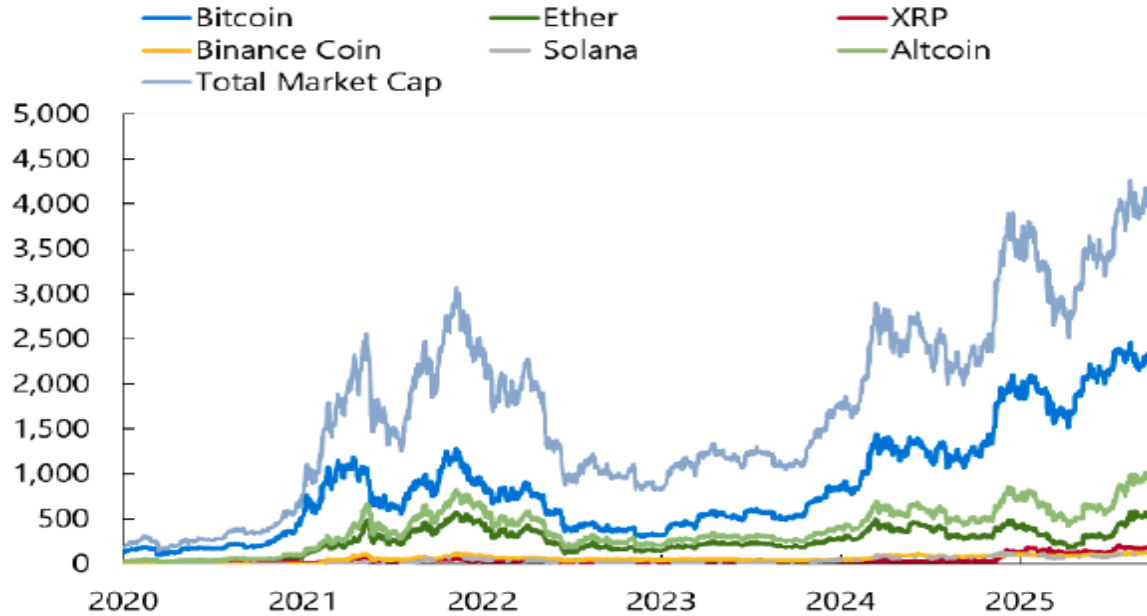
Regulated bank + Central bank

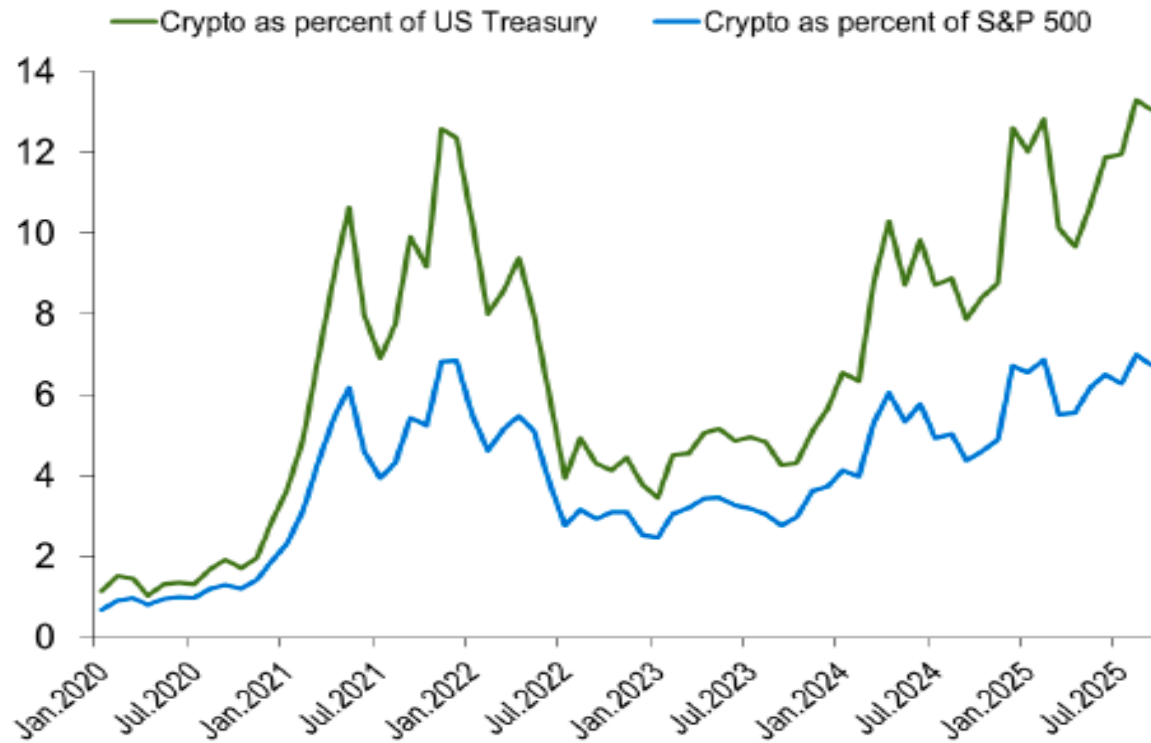
Intl prospects

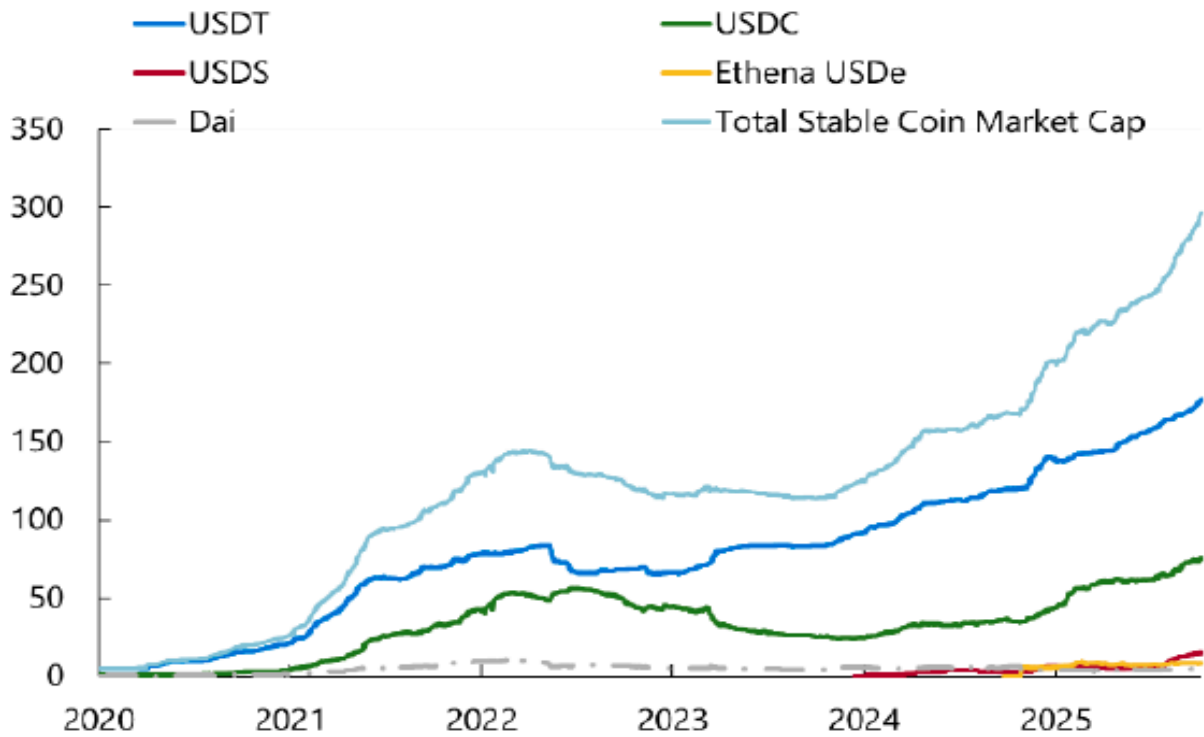
Nascent; design-dependent (interoperability)

Total crypto assets market cap surpassed
USD 4.2 trillion.

1. Selected Crypto Assets Market Cap (in USD billions)







International use case 1: Remittances

\$905 bn

Total global remittance
flows (2024)

6.49%

Current average cost of
sending \$200

0.2–2%

stablecoin
transfer cost

- Stablecoins can reduce transaction costs and settlement times — especially where banking access is limited
- Industry estimates KYC/AML compliance costs to be 1–3 pp regardless of the technology used
- ISO 20022 + programmability could embed compliance at lower cost. Back of the envelope 1pp gain: \$9bn
- Policy implication: competition among all providers with new data standards, with compliance requirements uniformly enforced across jurisdictions.

International use case 2: Currency substitution

Example: Argentina

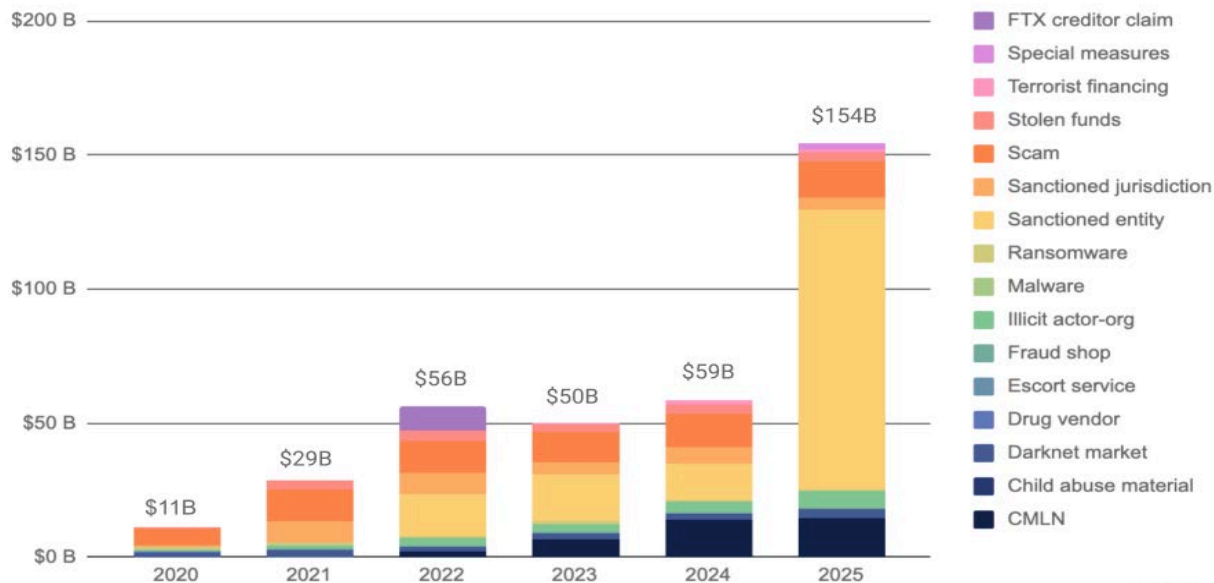
Triple-digit inflation eroded the peso. Households turned to USDT as a savings vehicle, inflation hedge, and payment tool bypassing capital controls.

Improves welfare when domestic institutions fail.

- In high-inflation economies, stablecoins make dollar substitution easier than before
- The availability of stablecoins weakens monetary sovereignty and stabilization policies

International use case 3: New Tool for Illicit Finance

Total cryptocurrency value received by illicit addresses
2020-2025



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\$154 bn

received by illicit crypto
addresses in 2025

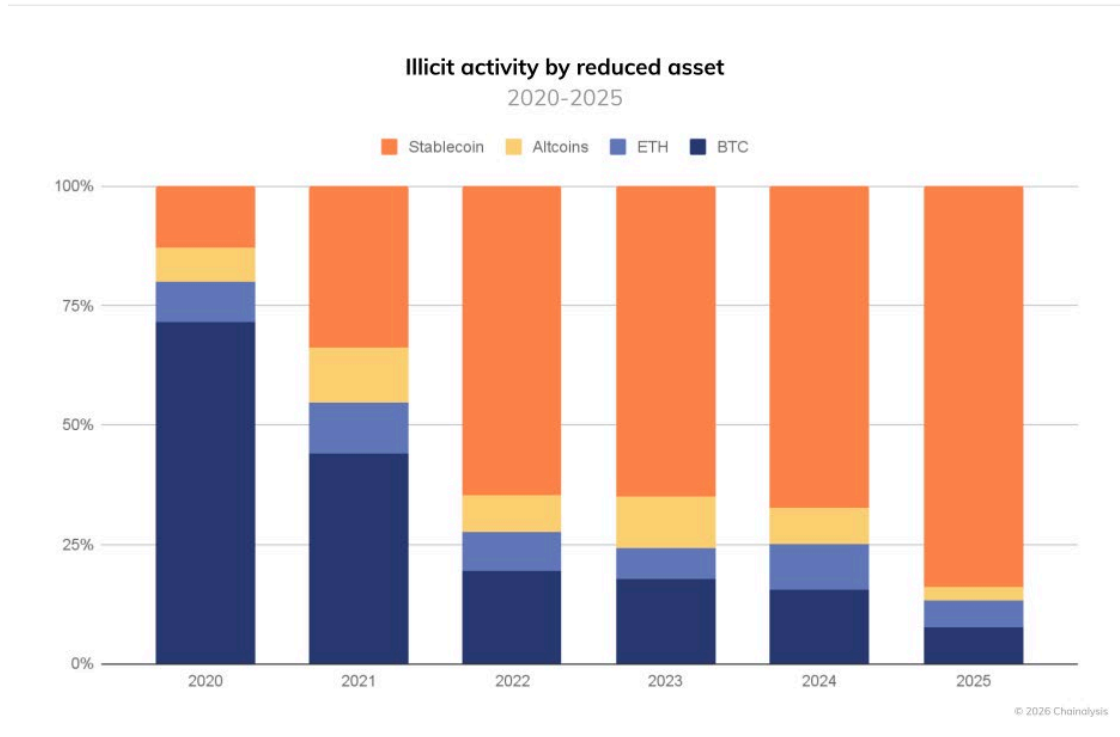
+162% year-over-year

\$104 bn from sanctioned
entities

International use case 3: New Tool for Illicit Finance

- USD stablecoins increasingly replace Bitcoin for illegal cross-border flows — more liquid, easier to move
- 'Mixers' obscure the on-chain link between sender and recipient, potent with high-liquidity USDT
- Nation-states have institutionalised crypto: Russia A7A75 token ruble backed (\$90 bn transactions), North Korea (\$2 bn+ stolen), Iran (\$3 bn+)
- Still <1% of total crypto transactions — but strategically important and growing fast

International use case 3: New Tool for Illicit Finance



Stablecoins

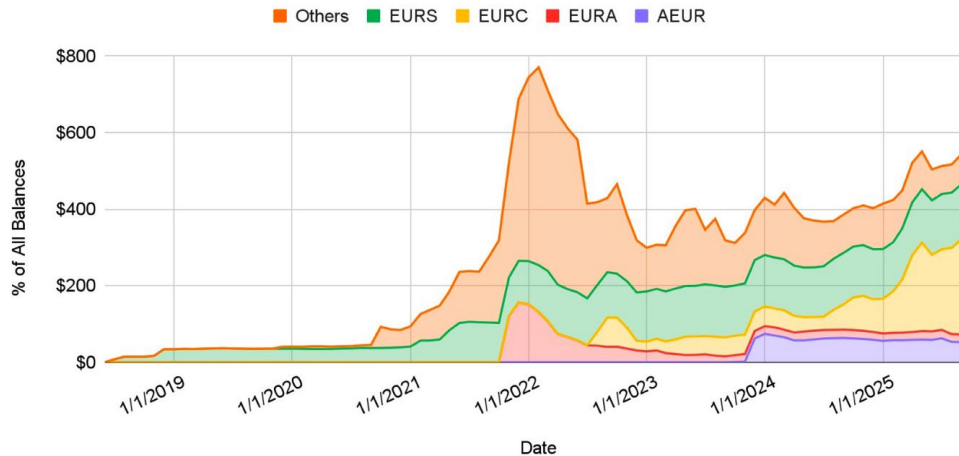
98%

of stablecoins are USD-pegged

\$300 bn total market cap

- Stablecoins borrow the dollar's unit-of-account and store-of-value roles — without interest payments
- Tether and USDC are de facto bridges between traditional finance and blockchain
- Critical gap: no lender of last resort — the fundamental difference from bank deposits

Non-USD Stablecoin Supply



Stablecoins and Eurodollars: A Historical Parallel

What are Eurodollars?

USD deposits held outside the US, legally outside US jurisdiction but embedded in the dollar system. Today ~\$13 trillion. Important for global role of the dollar.

The parallel

Both are dollar claims outside the regulated US banking system, relying on par convertibility. Regulatory arbitrage (regulation Q) and desire not to touch US financial system drove creation of eurodollars (Soviet oil payments)

Key lesson

Eurodollar volumes only took off once the Fed's liquidity backstop was implicit. Stablecoins lack this — a fundamental fragility.

Critical differences

Stablecoins pay no direct interest and have no lender of last resort.

See Aldasoro, Mehrling and Neilson (2023)

Tokenised Deposits: A More Stable Alternative?

Key distinction

Tokenised deposits stay inside the regulated banking perimeter — they have central bank access and a lender of last resort.

Stablecoins do not.

- Denominated in fiat currency, backed by traditional bank balance sheets, transferable on blockchain
- JPMorgan launched JPMD on a public Ethereum-compatible blockchain (November 2025)
- Useful for multinationals: real-time intra-group payments, liquidity movement across subsidiaries
- Key challenge: interoperability across jurisdictions and clearing arrangements
- International role still nascent — dependent on regulatory recognition and governance design

CBDCs: Public Anchor and key factor for internationalisation?

Why CBDCs matter

Key advantage: central banks provide elastic liquidity — backstop for private digital monies.

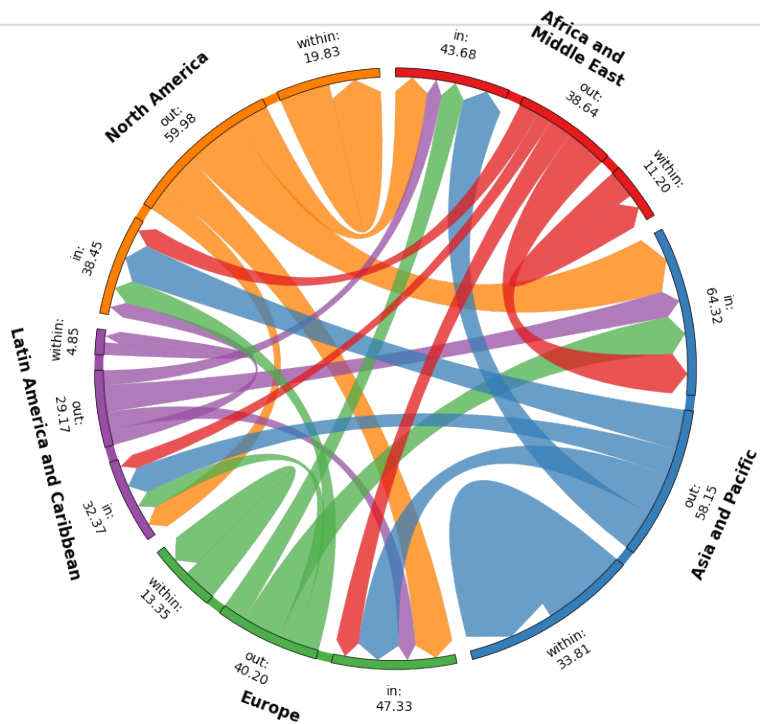
- US has prohibited a Fed CBDC; ECB is designing both retail and wholesale CBDCs
- mBridge: cross-border wholesale CBDC linking China, Hong Kong, Thailand, UAE, Saudi Arabia
- Agorá: BIS + 7 central banks + 40 private firms testing tokenised deposits on a shared ledger
- Pontes (ECB): near-term bridge connecting DLT platforms to TARGET euro settlement
- Appia: scalable, interoperable ecosystem for tokenised assets and DLT-based settlement
- **CBDCs, stablecoins and tokenised deposits are likely complements, not substitutes**

We Cannot Yet Measure Cross-Border Crypto Flows Precisely

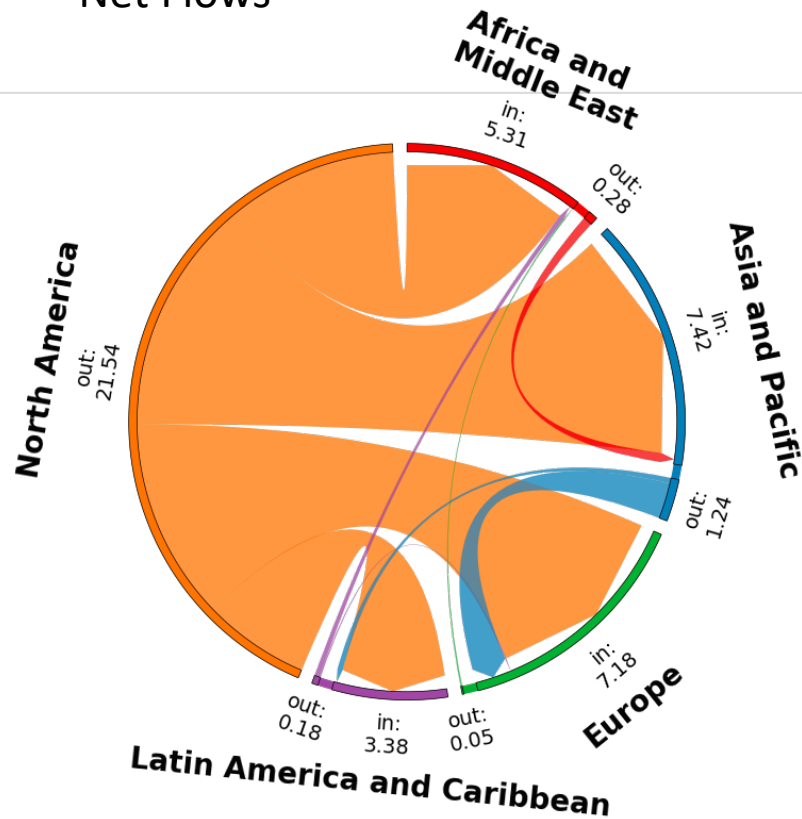
National accounts and BoP frameworks capture crypto flows poorly — wallet addresses do not reveal user jurisdiction.

- Chainanalysis: reconstruct residence using geography of web traffic into centralised exchanges — widely used but relies on strong assumptions (no VPNs, uniform transaction sizes)
- Reuter (2025): AI/ML on Ethereum self custodial wallets using linguistic signals, trading patterns — works without VPN assumption; but region-level only
- BIS Project Atlas: combines on-chain and off-chain data
- Asia-Pacific leads gross flows (\$160 bn); relative to GDP, Africa/Middle East (1.5%) and LatAm (1.4%) are highest
- Improving measurement should be a priority for policy makers — flows are becoming material

Gross Flows



Net Flows



Determinants of internationalisation

- **Trade view vs. financial market view:** internationalization driven by trade in goods (Eichengreen, Gopinath and Stein) or by financial asset trade (Portes and Rey)
- Importance of size, connectedness, institutions, trust, geopolitical/ military power
- Matter for both. History versus now: Financial markets more important?
- Tokenization affect the medium-of-exchange function: matters for trade view and for financial market view.

“New” factors : Geopolitics and Technological safety

- **Geopolitical alignments and military alliances** may matter **more** than in the past
- The probability of payment links between geopolitically distant countries is up to 3× lower (Minesso et al. 2025)
- Paradox: US push for USD stablecoins stimulates others to build competing crypto systems — potentially weakening US extraterritorial sanction reach in payment systems
- **Safety may become the most important feature (quantum proof)**
- The '**integrity premium**': the safest, most credible currency may gain market share and earn a premium over rivals (Rey 2025)
- **Leapfrogging**

Could Tokenisation Change the IMS?

Scenario A — More Dollar Dominance

- USD stablecoins are the most developed — first-mover advantage. How important?
- Big tech entrenches dominance (mythos)
- Cryptodollarisation in emerging markets: trade integration in Africa for ex.
- Sanction evasion tools paradoxically entrench the USD ecosystem short-run
- Takes over from \$ cash for illicit transactions
- Tokenised deposits of large US banks deepen global USD liquidity

Scenario B — Multipolar and Fragmented World

- Geopolitical fragmentation and policies stimulate creation of non-USD payment systems
- Payment systems interconnect along geopolitical lines (UPI↔TIPS)
- Alternative ecosystems emerge around the euro and yuan (more robust: CBDC)
- Better technologies emerge- mythos and quantum proof (integrity)
- USD sanction power weakens as alternative rails are built

Macro Consequences I: US Public Finances

Two opposing effects on US public finances?

Stablecoins privatise seigniorage — revenue goes to Tether and Circle, not the Treasury. Tether: \$10 bn profit last year (300 employees). Cash replaced. Tether not taxed by US.

But stablecoins may also raise demand for US T-bills, reinforcing the 'world banker' balance sheet.

Tether and Circle hold more US Treasuries than Saudi Arabia (IMF ESR 2025)

- Is this additional net demand? Or substitution of MMFs and \$ deposits?
- Stablecoins could strengthen US 'exorbitant privilege' — but runnability could makes this a volatile form of financing
- Tax evasion: new technology makes offshore transfers easier — large but hard-to-quantify fiscal holes.

Macro Consequences II: ROW Public Finances

Public finances of other countries

- USD stablecoin adoption = privatisation of seigniorage by foreign private actors.
- Tax evasion: new technology makes offshore transfers easier

Macro Consequences III: US Monetary Policy

- If rise of stable coins leads to fewer deposits and more reliance on wholesale funding for banks: *sharper response to monetary policy. (level effect)*
 - The degree of substitutability of Stable coins, bank deposits and Money Market Funds will be a key factor shaping the monetary policy transmission channel.
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Macro Consequences III: Cryptodollarisation and MP

- Cryptodollarisation in ROW: if USD stablecoins substitute for domestic bank deposits, domestic monetary policy transmission is weakened.
 - If currency substitution is large, loss of monetary sovereignty (may happen in high inflation countries)
 - Countries with capital controls face de facto more circumvention — harder to monitor than traditional dollarization.
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Macro Consequences IV: Global Financial Cycle

- If rise of stable coins leads to fewer deposits and more reliance on wholesale funding for banks: *sharper response to monetary policy (funding side responds more)*
- Stronger effects of US monetary policy shocks for euro banks using more wholesale funding (Altavilla et al. (2025))
- Shocks to credibility and cyber and geopolitical risks may lead to substantial and sudden portfolio shifts (Farhi, Gourinchas and Rey (2011)).
- Liquidity provision in crisis times in such a fragmented world will be more difficult and require coordination. Will there be a Lender of Last resort?

Macro Consequences V: Global Financial Cycle

- Capital Flow Management more difficult: macro prudential policy affected.
 - If tokenisation makes collateral requirement less costly and decrease settlement time, it is possible that the velocity of collateral will increase, which will make the system more procyclical
 - If stablecoin demand is driven primarily by hedging against domestic monetary mismanagement, as in dollarisation episodes: stablecoin balances would expand precisely when domestic policy needs to tighten, exacerbating capital outflow pressure.
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Conclusions : Research Agenda

Internationalization: *This time may be “different”* - geopolitics and technology

Important for :

- Public finances
 - Rule of law
 - Monetary Policy transmission
 - Global Financial Cycle
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