

Central Bank Digital Currency (CBDC) or stablecoins, or both – A central banking perspective

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Introduction

With the above title, the Monetary Policy Section of the Hungarian Economic Association (MKT) organised an English-language webinar on Wednesday, November 5, 2025. Panellists included fellow workers from the Bank for International Settlements (BIS), Decent Investments, Hold Asset Management, and the National Bank of Hungary. The audience had the opportunity to intervene. The event was organised under the “Chatham House Rule”.¹ This article provides an overview of the issues discussed at the session, as interpreted by the author. It therefore does not necessarily reflect the views of individual speakers, their institutions, or the industry as a whole.

Overview of global CBDC and crypto landscape

The meeting began with a comprehensive overview of the crypto asset scene, based on the 2024 BIS survey on central bank digital currencies and crypto assets².

Of the 93 central banks surveyed, 91% (85) were exploring either a retail CBDC, a wholesale CBDC or both. These 93 central banks collectively cover nearly 80% of the world’s population and 94% of global GDP. The panel’s discussion focused on retail CBDCs and stablecoins, although central banks are also exploring wholesale CBDCs. The latter are tokenised forms of wholesale central bank money, essentially existing reserves, used in transactions between banks and central banks.

Stablecoins are a subset of crypto assets, issued by the private sector, not by central banks. They primarily rely on cryptography and distributed ledger technology (DLT).

¹ <https://politicaldictionary.com/words/chatham-house-rule>

² <https://www.bis.org/publ/bppdf/bispap159.htm>

Stablecoins aim to maintain a stable value relative to a specific currency or commodity. Most of them, especially in terms of market capitalisation, are backed by the US dollar. Due to their promise to maintain a stable value, they have potential for use as a means of payment, such as for transactions between individuals or those involving large financial institutions. Stablecoins are primarily used as a bridge between the traditional financial world and the cryptocurrency world, facilitating the buying and selling of cryptocurrencies. Additionally, several commercial banks have announced initiatives to issue their own stablecoins. It can be observed that traditional payment service providers, such as credit card schemes and financial market infrastructures (FMIs), are increasingly exploring the integration of stablecoins into their operations.

Despite these trends and their purported potential, stablecoins fall short when examined through the three key tests of money, which relate to the singleness of their ability to provide liquidity if needed and last but not least, integrity. The latter refers to preventing crime and money laundering.

Although stablecoins promise to maintain a stable value, none of them have been able to uphold a stable par value throughout their entire lifetime so far. Nonetheless, the stablecoin market has experienced rapid growth, with Tether dominating the market, followed closely by USDC issued by Circle.

Developments in crypto have driven numerous countries to step up their work on CBDCs. In reality, a considerable number of central banks view retail CBDC as a means to maintain a role for central bank money as cash usage declines and new private forms of money emerge.

In parallel, many jurisdictions have intensified their regulatory efforts, focusing on stablecoins and other crypto assets. By the end of 2024, 45% of jurisdictions worldwide had already established a regulatory framework for stablecoins and other crypto assets, while 22% were in the process of doing so. Accordingly, two-thirds of all countries have, or will soon have, regulations for stablecoins and crypto assets.

Considerable progress has been made with retail CBDCs in emerging markets and developing economies. Reasons for this may relate to the promotion of financial inclusion, which is low in these countries due to high fees for financial services, limited branch availability, and difficulties in accessing financial services in remote areas. On the other hand, advanced economies are increasingly focusing on the wholesale CBDC work. This may be related to their well-developed financial services industry, which reduces the appeal of retail CBDCs in meeting the needs of most of the population. Thus, the question arises: What could retail CBDC really offer them? Additional questions also arise about risks and costs of introducing a retail CBDC, including the expense of maintaining interoperable multiple systems alongside traditional systems, as well as liquidity concerns, because participants require liquidity in both systems.

To maintain and/or increase the trust, the efficiency, and safety of payment systems, central banks could not only issue retail CBDCs, but also interlink domestic fast payment systems or conduct further work on enhancing regulation. Therefore, the way forward in the context of retail CBDCs cannot be decided in an either-or approach; it's something that central banks need to consider more holistically. This, however, implies also that the future landscape will likely be one in which different

instruments and systems coexist at the global level. To avoid silos and arbitrage, the BIS strongly emphasises the importance of international cooperation and global coordination among jurisdictions, central banks, and other stakeholders.

An industry perspective on the use of stablecoins

Next, the discussion shifted to business experiences with stablecoins. Traders must choose between different settlement options depending on the use case of the specific crypto asset. The first option is to sell Bitcoin or other crypto assets for a common dollar and deposit the sale proceeds into the seller's bank account. In that case, it may take several days for the money to be credited, and additional costs may arise. Additionally, the bank's compliance officer may ask questions about the source of funds. If customers want to reinvest their money, they must go through similar procedures. Alternatively, when closing a crypto position, the customers may stay within the crypto space. Here, stablecoins and private crypto wallets can be used to ensure speedy and less expensive transactions.

Another possible use of stablecoins is arbitrage trading between crypto exchanges. In this business, the transfer of money between the crypto exchanges must be rapid and inexpensive. In this business, some stablecoins can serve as a platform with smart contract functionality, similar to Ethereum.

A third use case is payment, which is typically used between crypto-native entities. The fourth use case is to earn interest with stablecoins, which has shown significant growth in recent years. A fifth, and quite different, use case of stablecoins is remittance, a cross-border P2P payment. Remittance flows to low- and middle-income regions amounted globally to approximately USD 700 billion in 2024, according to the World Bank. Beneficiaries of remittances often lack access to a bank account, and sending them cash via traditional money transfer services is typically expensive, costing up to 6% or 10% of the transferred amount. Sending stablecoins is inexpensive and fast, and even individuals without a bank account can use a mobile device to receive them. To date, however, only a fragment of remittances is sent using stablecoins, but the growth potential is considerable.

A central banking perspective

Next, the central banking perspective of CBDCs and stablecoins was discussed. Taking Hungary as an example, the country has a fast payment system that is mandatory for all financial institutions, particularly for transactions involving significant amounts. It is, in many respects, a pioneer in the traditional payment world, although it operates outside the Eurozone. Additionally, the country has several financial institutions that can offer efficient payment services in other currencies as well.

Under such conditions, from a payment perspective, the introduction of retail CBDCs or private stablecoins would likely bring only limited improvement or

progress. From a central bank's perspective, it is therefore a crucial issue to identify a compelling business case for introducing a retail CBDC. Regardless, central banks outside the Eurozone should work closely with the ECB on CBDC to stay informed about developments and be prepared for the possible introduction of the digital euro. Another reason to follow closely the developments in CBDC is to facilitate innovation within the financial sector.

Considering live retail CBDCs and ongoing retail CBDC pilots, e.g., in The Bahamas, Jamaica, Nigeria, and China, current usage is still limited. Therefore, it is premature to assess the usefulness and benefits of retail CBDCs.

Network effects and achieving uptake

The panellists then discussed network effects in payments. The classical example of network effects is the epic battle between the video tape-recording standards VHS and Betamax. Performance-wise, Betamax machines could reproduce colours more accurately and play back and fast-forward more quickly. However, the parts for Betamax machines remained pretty pricey, and their technology was only compatible with other Sony products. In contrast, JVC made its VHS machines simpler and cheaper to produce, did not protect the VHS technology with patents, thus allowing this format to flourish. This enabled VHS to undercut Betamax and gain more market share. How does this experience translate to the use of digital currencies? Is there a network effect for stablecoins or CBDC? Is there a trade-off between perfect and good? Is the GENIUS Act affecting the timing, and does it pose a trade-off for central banks more interested in CBDCs, or is it promoting stablecoins through network effects?

In the world of decentralised exchanges, a specific type of stablecoin or cryptocurrency can be easily converted into another, and smart contracts automatically determine the best execution. This means that a payment transaction can be executed with a single click, even if the payer initiates the transaction in a different type of stablecoin than the one accepted by the seller. It is a question whether the same can be achieved with CBDCs, which will depend on their specific designs.

On a global scale, one critical factor for speedy and safe cross-border conversion is the similarity of stablecoin regulations. Within the US, companies may issue stablecoins under the GENIUS Act, and they can be easily converted. The question is whether stablecoins issued in different jurisdictions can be easily exchanged, e.g. when the asset-backing requirements of stablecoins vary from one jurisdiction to another.

The presence of network effects and the need to scale do not necessarily mean that everybody moves towards the same form of digital money. This is why central banks and private payment systems work diligently to ensure interoperability, enabling different systems to communicate and interlink with one another.

The issue is the purpose or the objective that central banks want to achieve with the introduction of a retail CBDC. If the goal is to increase financial inclusion, then the introduction of a CBDC could be evaluated as a success if it brings into the financial system those parts of the population that currently lack access to financial

services. Other central banks may consider issuing a retail CBDC as a backup in case the digital payments infrastructure gets compromised. In such a case, at least consumers can use CBDC as a fallback option. Accordingly, the success of a retail CBDC depends significantly on the purpose for which it is issued.

Monetary policy

Then the discussion turned to the CBDC's role in monetary policy transmission and whether it potentially eases bank runs. There is no definitive answer to this question yet, although the introduction of CBDC may have a significant impact on financial stability. Central banks impose limits on retail CBDCs to ensure they do not harm the financial sector. If the limit is small enough, it will not harm the financial industry, because even if every citizen exhausts this limit, the outflow of liquidity remains low; thus, the banking sector can easily pay out with its liquidity buffer. Alternatively, it should be considered how a limit would impact the monetary policy effect. The limit is something which can be estimated only by experience.

Retail CBDC is a digital representation of banknotes and coins, which make up a relatively minor part of central banks' balance sheets today. Monetary policy is conducted primarily through the central banks' reserve holdings. Jurisdictions considering a wholesale CBDC, i.e., a tokenised version of the reserves, will apply the same interest rate requirements or excess requirements, and in that case, essentially treat it in the same way as traditional reserves.

Several central banks that are exploring a retail CBDC consider not paying interest on retail CBDC balances, just as banknotes do not yield any interest. They are also setting limits on the size of transactions that can be settled with retail CBDC to ensure it's only used for daily small-value payments, as well as to prevent a massive outflow of traditional commercial bank money from deposit accounts.

In the case of stablecoins, the European Markets in Crypto-Assets Regulation (MiCA) strictly forbids stablecoins from paying any interest. The Guiding and Establishing National Innovation for U.S. Stablecoins Act (GENIUS Act) also bans interest payments or any other rewards for holding tokens, neither in digital assets, fiat currency, nor other instruments, for holders. However, under both regulations, it is possible to earn interest on stablecoins through third-party platforms, such as centralised exchanges, if they offer these services. It remains to be seen where more and better-yielding options will be provided to stablecoin holders.

To conclude

Regarding the digital euro, questions emerged about its added value. In this context, a Spanish MEP was cited who allegedly asked the question when the digital euro came on the agenda: "Why are we discussing something citizens are not asking for?" A reference was also made to the findings of a recent research study conducted jointly

by Bocconi University in Italy and the London-based fintech company Revolut³. The results suggest that the success of the digital euro cannot rely solely on technical robustness; it must be built around the value it creates for citizens. A digital euro that is too similar to the traditional payment instruments risks irrelevance. One way to distinguish itself is to be simpler and more accessible, more public, and more integrated into the contemporary digital ecosystem. It was also remarked that one of the most important freedoms in the EU is the free movement of persons. In this context, the question arises as to how the digital euro could be introduced smoothly without incurring additional costs for both citizens of the Eurozone and for travellers from non-Eurozone countries and other third countries.

The webinar addressed highly topical and fascinating issues. It would make sense to organise a follow-up webinar about the status of the digital euro's preparatory work, as well as to discuss topics such as the Cantillon effect, which describes fairness issues arising from the distribution of newly created money. ■

3 <https://www.sdabocconi.it/en/sda-bocconi-insight/research-updates/banking--insurance/for-a-digital-euro-that-citizens-will-embrace>