Discussion of

The Macroeconomics of Stablecoins

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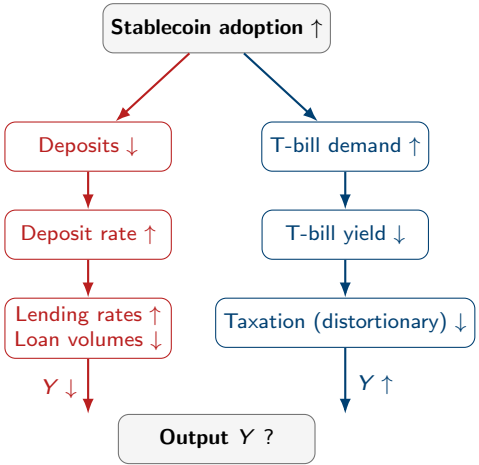
* The views expressed here do not necessarily represent those of the Bank of Italy.

This paper

A quantitative macro model of stablecoin adoption, calibrated to the U.S.

- Stablecoins compete with deposits, raising banks' financing costs and changing the composition of their funding base.
- Stablecoin issuers must hold short-term government bonds, decreasing the cost of borrowing for the public sector.
- Two countervailing channels:
  - ↘ **Bank-lending channel** (contractionary)
  - ↗ **Fiscal-space channel** (expansionary)



Results

Small net effect on output, sensitive to regulation/assumptions on foreign demand

1. **Baseline result:** negative effects from the bank-lending channel narrowly dominate. Output falls by $\approx 0.01 - 0.04\%$ for \$0.25–3 trn adoption ($\approx$40% of outstanding T-bills). Fiscal space channel almost offsets bank-lending channel.
2. **Alternative configuration generate different output effects.** Output *rises* when
   - output *rises* if (i) issuers required to hold central-bank reserves ($+0.08\%$), (ii) half of SC demand is foreign ($+0.04\%$), (iii) debt/GDP $> 150\%$, (iv) T-bill share is high;
   - but it *falls further* under a MiCA-style deposit requirement (-0.05%).
3. **Transition $\neq$ long run:** fiscal channel is fast, lending channel is slower $\rightarrow$ output $+0.4\%$ over the first $\sim$3 years.
4. **Welfare $\uparrow$ even when output $\downarrow$:** liquidity services more than offset lost consumption.

Thoughts on the paper

- **A timely and ambitious paper.** A serious GE answer to a question everyone is asking, with a quantitative model that enables counterfactual analyses.
- **A "tractable" treatment of stablecoins.** Model is extremely rich but effects of stablecoins boil down to a race between two channels, with clear economic insights.
- **Sound calibration strategy.** Remarkable fit to US macro-financial data for 1951-2021.
- **Rich policy implications.** Framework can be used to perform many regulatory experiments (MiCA deposits, reserve backing) and scenario analyses (foreign demand).

☞ **Some comments:**

❶ output effects and substitution patterns ❷ deadweight loss from taxation
❸ implications for euro area ❹ realism/policy relevance

Comments I

❶ Output effects and subst. patterns

- Under the baseline calibration/scenario, effect on output is tiny ($\approx -0.01\%$); even under other scenarios, it stays small.
- This result depends on the two channels basically cancelling out (in the baseline, but their *net* effects are also quite small even for large adoption ($\approx \pm 0.1\%$)
- Could this depend on the substitution elasticities between SC, deposits and cash?
  $\rightarrow$ sensitivity heatmap of output effect and two channels as functions of (ν, ϵ)
  $\rightarrow$ no "nest" for digital assets?

❷ Deadweight loss from taxation

- In the model, government faces tax collection costs $\theta(\tau_t) = \frac{\zeta}{2}\tau_t^2 Y_t$.
- How much is the estimated effects of stablecoins through the fiscal space channel depend on ζ?
- Is this on top of distortionary effects of taxation on intermediate good producers?
- Would a fall in labor income taxation generate stronger output effects through hours worked?

Comments II

❸ Implications for the euro area.

- Foreign stablecoin demand improves output effects (strenghten fiscal space channel without disintermediation).
- Model calibrated to US: foreign demand for USD-denominated stablecoin is high $\rightarrow$ relevant exercise
- What about the euro area?
  Likely to experience the opposite: negative effect on banks without enhanced fiscal capacity?
- Could you run the same exercise for the *foreign* economy?

❹ Realism/policy relevance.

- Output effects are (i) *more negative* if SC issuers required to hold deposits, and (ii) *more benign* if required to invest in CB reserves.
- Mechanisms: (i) same effect on deposit rates, lower fiscal space; (ii) additional revenue for fiscal authority (seignorage).
- Model can't be used to discuss important margins affected by these regulations (GENIUS Act/MiCA): run risk/depegs and financial stability implications.
- **What about...** Bank-issued SC? Reallocation of credit to non-banks?

Taking stock

- A **valuable and well-built** paper: one of the first to take stablecoins to a quantitative general-equilibrium model, with a narrative centered around a tradeoff between effects on bank lending and on the government spending capacity.
- Central message: the net output effect is small $\rightarrow$ robustness to alternative calibrations.
- Effects can change sign but stay small in abs. value under alternative regulation on issuers/ assumptions on foreign demand and more.
- My comments are aimed at understanding *how general* these small net output effects are:
  - substitution structure between SC, deposits, and cash;
  - distortionary taxation;
  - realism: financial stability/bank-issued SCs/credit reallocation.
  - what about the euro area?

☞ **I learned a lot: congrats on a great paper!**