Banks in the Age of Stablecoins:

Some Possible Implications for Deposits, Credit, and Financial Intermediation

Jessie Jiaxu Wang, Federal Reserve Board

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Stablecoins and the Bank Funding Landscape

Rapid growth

Stablecoins total ~$300 billion, now under a federal framework following the GENIUS Act.

Wide range of projections

Private-sector estimates point to roughly $1–3 trillion by 2030.

Key question for banks

How might stablecoin growth shift bank funding mix, composition, and cost, and what does that mean for credit?

Core message

Stablecoins don’t simply drain deposits. They can reduce, recycle, or restructure them.

Roadmap

1

How stablecoins and banks interact today

2

Effects on deposits

3

Evidence on deposit effects

4

Effects on lending

5

Broader structural consequences

Stablecoins and Banks: Two Links

Direct competition

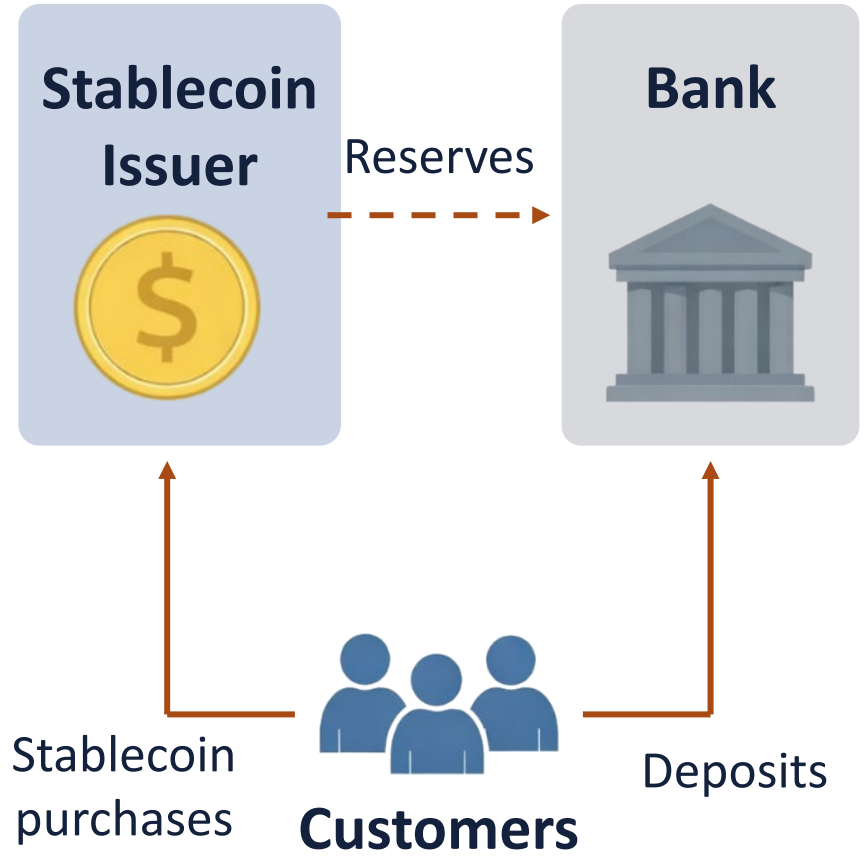
Households and firms choose between deposits and stablecoins, especially for transaction balances.

Indirect funding link

Issuers hold reserves, part of which sit at banks or recycle back into the banking system.

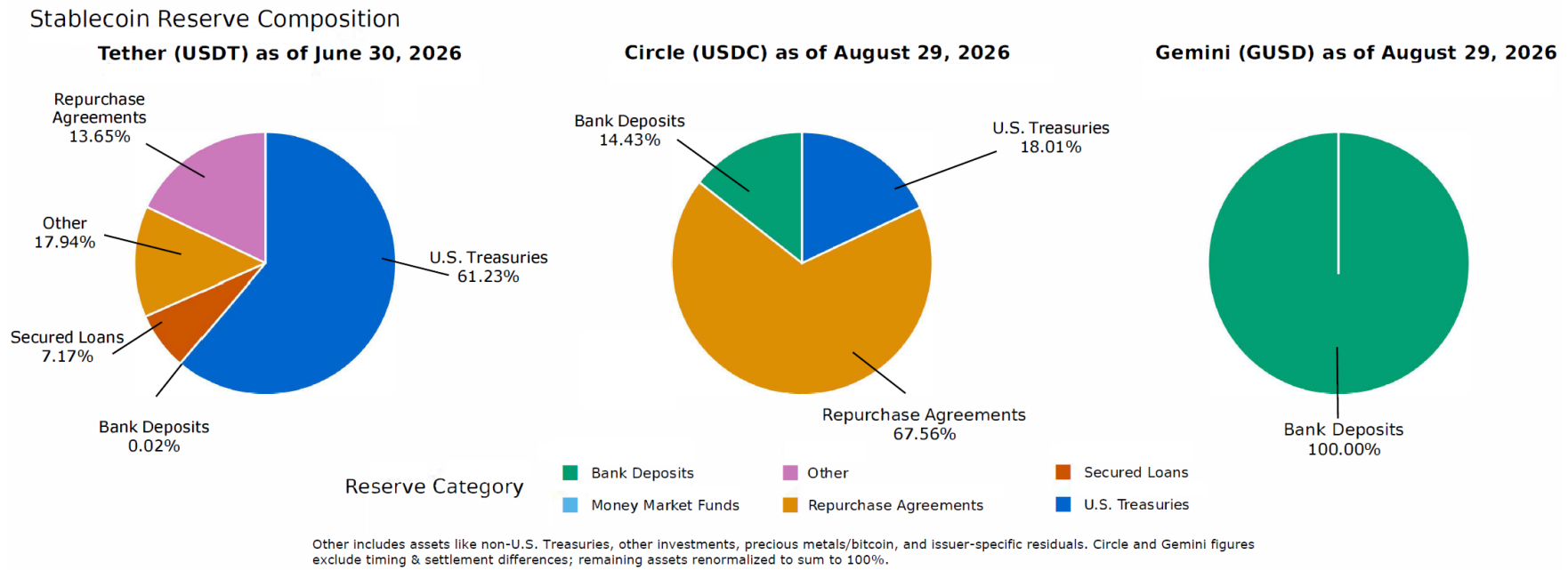
Bank response

Tokenized deposits (e.g., JPMD) aim to combine programmability with deposit protections, keeping the “token” on the bank balance sheet.



Stablecoins and Banks: How Issuers Hold Reserves

Bank-deposit share of reserves varies widely across issuers



Source: Issuer transparency reports, latest available for 2026; author's calculations

→ Reserve allocation determines **how much stablecoin adoption is recycled back** into banks

Effect on Bank Deposits

Deposit effects depend on:

Who

demands stablecoins: domestic vs. foreign

What

funds are converted: deposits vs. MMFs, other assets

Where

reserves go: bank deposits, Treasuries/repo, or the Fed

Deposit level: Falls when deposits are not recycled, e.g., reserves held at the Fed directly or via MMFs in ON RRP

Deposit composition matters, even if aggregate deposits do not decline

- Recycled deposits are often **wholesale, uninsured, concentrated**
- Higher runoff assumptions → more HQLA, higher funding cost

Stablecoin Competition Varies with the Policy Cycle

Vardoulakis, Wang, and Wei (2026): how stablecoin competition affects bank deposits and monetary policy transmission, using bank-level data.

– Novel bank-level exposure measure: local stablecoin attention (Google Trends) × branch deposit networks

On average: pricing pressure on transaction deposits

- More exposed banks pay higher interest-checking rates (≈ +3.5 bp per 1 SD, about ¼ of the sample mean)
- No significant differences in deposit quantities or CD rates

During 2022–23 tightening: competition eased

- DeFi stablecoin lending yields fell as rates rose; MMF yields rose ≈ 1-for-1
- More exposed banks kept more demand deposits and raised checking rates less
- Total deposits unchanged: mix shifted toward transaction balances
- Opposite for MMF-like competition: lower deposits and more CD-rate pass-through

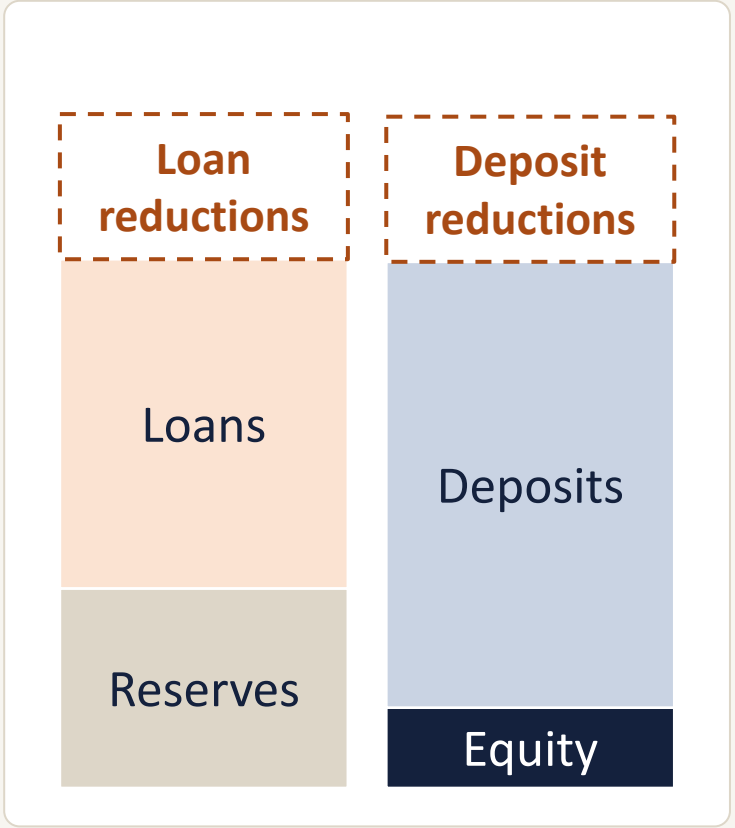
From Deposits to Lending: Deposit Level Effect

Deposit level effect: Stablecoin adoption may reduce bank deposits → lowers balance sheet capacity → reduces lending.

Changes in loan amount due to the deposit level effect:

$$\Delta Loan_{\text{deposit level effect}} \approx multiplier \times [foreign\ offset - (1 - recycling) \times stablecoin\ adoption]$$

- Recycling: Share of reserves ultimately recycled back to bank balance sheets
- Multiplier estimates: 0.6–1.26 (Khwaja and Mian 2008; Kundu, Park, and Vats 2025)
- Estimates already embed banks' mitigation via deposit rates and wholesale funding



From Deposits to Lending: Deposit Composition Effect

Deposit composition effect: recycled deposits are less stable → more liquidity holdings → less capacity for longer-maturity lending

Changes in loan amount due to deposit composition effect:

$$\Delta Loan_{\text{deposit composition effect}} \approx -\ \text{liquidity haircut} \times \text{recycling} \times \text{stablecoin adoption}$$

- Liquidity haircut 5–15% (LCR runoff + internal funds transfer pricing penalties)
- Recycling cushions the level effect but tightens credit through composition.



Evidence: Post-SVB, Circle's partner banks became sensitive to stablecoin flows and responded by holding more reserves and cutting lending (Lee and Tou, 2026).

Effect on Lending: Illustrative Magnitudes

Total effect = fewer deposits + less usable deposits (illustrative, not forecasts)

Assumptions: multiplier 0.6–1.26; liquidity haircut 5–15%; total bank loans ~$12.5T

	Low adoption high recycling	Moderate adoption moderate recycling	High adoption low recycling
Stablecoin adoption	$300B	$500B	$1T
Recycling rate	95%	80%	20%
Foreign offset (+)	0	+ $50B	+ $200B
Net deposit outflow (–)	– $15B	– $50B	– $600B
Change in lending (rounded)	**–$25B to –$60B**	**–$50B to –$125B**	**–$370B to –$790B**
As fraction of total loans	**–0.2% to –0.5%**	**–0.4% to –1%**	**–3% to –6%**

> No significant lending response at banks more exposed to stablecoin competition (Vardoulakis, Wang, and Wei 2026)

Beyond Volumes: Pricing, Distribution, and Bank Heterogeneity

Deposit shifts affect loan pricing, who gets credit, and which banks are exposed.

Loan pricing	Higher funding costs and volatility pass through to borrowers • Evidence suggests 60%+ pass-through to loan rates
Borrowers	SMEs, CRE, relationship-dependent firms most affected; large firms can turn to bonds or nonbank lenders
Bank heterogeneity	Adaptation capacity highest at large banks, weakest at mid-sized regionals → wider dispersion in credit availability and cost
Potential beneficiaries	Custody/settlement banks, on/off-ramp and BaaS providers, but with concentrated, volatile funding
Competitive dynamics	May accelerate consolidation; “same activity, same risk, same regulation”

Broader Consequences and Conclusion

Unbundling	Stablecoins could weaken the payments–deposits–lending nexus; less so if banks remain the on- and off-ramps
Design is first-order	Reserve composition, rewards treatment, and terms of Fed account access determine whether stablecoins recycle or drain deposits
What to monitor	Deposit composition and concentration, liquidity buffers, loan pricing and terms, substitution to nonbank credit
Bottom line	Not the end of banking, but a potential acceleration of structural shifts in bank funding