

Unlocking the Future of Crypto: Stablecoins

The Evolution of Money

Money plays a fundamental role in society, serving as a medium of exchange that symbolizes perceived value. Its societal value comes from its ability to be efficiently traded and accepted for the payment of goods and services, as well as the repayment of loans. Although this concept that facilitates transactions may seem simple, it has consistently developed throughout history into what we know it as today.

Before money, people relied on bartering, the act of trading one good or service for another, skipping the use of a medium of exchange, to gain goods and services. Bartering, known as the oldest method of transaction, dates back to 6000 BC when Mesopotamian tribes adopted the process to trade foods, spices, and swords. The practice spread like wildfire, as it allowed civilizations to maximize the efficiency of their resources and stimulated relationships between groups of people. Examples include the Roman soldiers who bartered their allegiance to the empire, while in turn receiving salt as well as the Babylonians who carried out the trade of human skulls. Effective practices of bartering transformed early practices of commerce and led to societal interaction. Fast forward to medieval times, Europeans traveled across the world to barter crafts and furs for perfumes and silks. Simplicity and the lack of concentration of real power were key advantages that drove trade, but financial innovation continued. Then, some commodities began to be used as vehicles of trade. Cattle and other farm animals were introduced to markets as the next secure medium. Eventually, commercial trading through commodities declined, as these farm animals had changing values due to factors such as their age and health.

The next form of currency that is believed to be adopted by civilizations was the metal coin, specifically the Lydian Coin. Around 600 BCE, the king of Lydia, an affluent ancient kingdom in present-day Turkey, issued a coin made of electrum. Early Lydian coins featured simple designs, such as a lion's head or a bull with the opposite side often displaying a punch mark. The invention of coinage by the Lydians facilitated easier trade and commerce, while setting a precedent for future civilizations to implement other coins composed of gold and silver. The premise of their value was rooted in their rarity, beauty, and immunity to corrosion. Minting of gold and silver coins was a regular practice for several centuries. The pieces were backed by their intrinsic value, in other words the trade value of the metal used in their production. Therefore, when thirty grams of gold were melted to make the coin that coin would then be exchanged for goods of that same value.

As international trade grew, the weight of carrying these coins imposed a significant barrier to tradesmen and led to the creation of paper money. The first example is believed to have been created in China during the Song dynasty around 1100 CE. Known as the "jiaozi" (交子), the Song Dynasty government issued the first paper money. The dynasty meticulously regulated the production of the jiaozi to maintain its value and prevent counterfeiting. The paper money revolutionized the Chinese economy by making transactions more efficient and convenient, in addition to facilitating large-scale trade within China and neighboring regions.

A New Dawn in Financial Innovation

Cryptocurrency stands out as another wave of innovation. Introducing the concept of decentralized digital currency to the economy, these currencies utilize encryption to verify transactions and run on a distributed public ledger called blockchain, which records all transactions and asset holders in real time. Units are created through a process called mining where computers are leveraged to solve complicated mathematical problems and in turn generate coins. Cryptocurrencies can be stored in hot wallet storage that uses online software to protect private keys or cold wallet storages that rely on offline electronic devices to store the private information. This application of blockchain technology allows for a decentralized network to transmit data in a manner that optimizes efficiency and transparency. This in turn removes the need for a bank or a broker to guarantee the accounting and reliability of the transactions. As a result of the decentralization of a crypto network, it is no longer necessary to have a central administrator and therefore it is impossible for any government to modify the emission. The invention of crypto has opened new doors for making cross-border payments, serving non-bankers, reducing intermediation fees, preventing identity fraud, and more.

Many shy away from investing in cryptocurrency, as they feel their lack of domain knowledge in the subject coupled with crypto's volatile performance present fundamental risks to any investor's portfolio. Price volatility has been an intrinsic characteristic in cryptocurrencies since their inception and price variation is highly marked by market cycles. To this remark, I would like to introduce the stablecoin. A stablecoin is a special form of cryptocurrency that is programmed to maintain a constant value by being directly pegged to a fiat currency or commodity like gold. Given that a cryptocurrency like Bitcoin's value often fluctuates rapidly, stablecoins offer a powerful value proposition of expanded access and are regarded as a reliable medium of exchange. To share a practical example, USDC is a dollar based stablecoin that operates within the blockchain and trades for the equivalent of one US dollar.

The Underlying Principles

In 2023, global stablecoin settlement exceeded \$7 trillion compared to \$14 trillion settled by Visa and Mastercard. Stablecoins on open blockchains are revealing a tremendous wave of global commerce, making it incredibly easier for businesses to own and transact in various digital currencies. Stablecoins represent two of the top five assets in Defi, accounting for over 40% of the Total Value Locked. Society is at the brink of yet another transformative cycle of financial technology adoption, as the need for banking tech equity is met by innovative, efficient solutions that bridge crypto with stable, alternative investments.

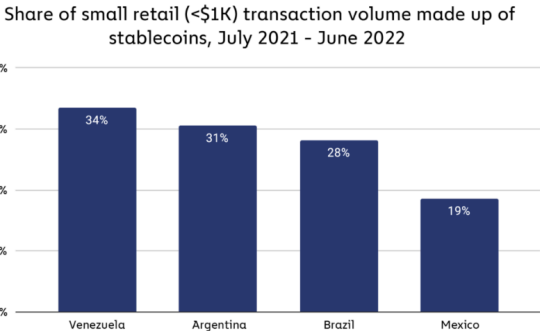
Fiat-collateralized stablecoins, perhaps the most well-known, maintain a reserve of a fiat currency such as USD, gold, or silver as collateral to assure the coin's value. The most prominent and oldest example is Tether (USDT), which at a market cap of \$67 B, is currently the third biggest cryptocurrency, behind Bitcoin and Ethereum. These reserves are held and audited by independent custodians. By the same token, crypto-collateralized stablecoins are backed by other cryptocurrencies and usually hold excess reserves of at least 150% collateralization ratio to account for crypto's volatility. Lastly, algorithmic stablecoins hold their value through a computer program procedure that regulates its supply. This form of stablecoins can be thought of as the true embodiment of decentralization, as the system's programming defines the rules that regulate the underlying financial system and operate without the regulation of a third party agency.

Some call it in other words the Treasuries of crypto, so in essence, the stablecoin issuer has one foot in the world of blockchain and one foot within traditional finance. Stablecoins function as a bridge to assist in the trade of cryptocurrencies like Bitcoin and Ether. But various market players have also leveraged their ability to move money freely across borders, at the speed of the internet, with the ease of a text message, in a secure and low-cost way. Whether you're someone in Thailand wanting to hold a stable medium of exchange or a multinational corporation managing cross-border payments, this is a huge deal. Currently, there are around \$125 billion in outstanding stablecoins and about 1 million daily active wallets that use the currency. They have grown into much more than just an asset: they're a platform and can be viewed as a financial infrastructure layer that innovates how value can be held and transferred.

From a business perspective, stablecoin issuers follow a clear revenue-generating model, as they apply monetization strategies on the collateral they hold in reserves. Centralized stablecoins, for example, invest dollar reserves in higher-yielding asset classes such as commercial paper and treasury bills, while their liabilities incur zero interest. Additionally, centralized stablecoins bring in revenue through charging issuance and redemption fees when an individual creates coins by trading over collateral if they redeem coins for collateral. Decentralized stablecoins, on the other hand, hold their reserve assets on-chain through other crypto assets and smart contracts. This practice boasts optimal transparency as the smart contracts eliminate the need for a third party. Decentralized stablecoins usually create another cryptocurrency, in addition to the pegged stablecoin, to regulate various processes such as revenue sharing and governance. For example, the MKR token is MakerDao's governance token for its pegged DAI stablecoin token

A Region Ready for Change

LatAm is taking on a leading role when it comes to digital currencies and stablecoins more broadly, as 51% of consumers have used digital currencies for purchases, with one-third relying on stablecoins for routine shopping. This surge in digital currency usage can be attributed to several factors, but a few stand out: the region's vast unbanked population, financial stability protection against rampant inflation, and cross border transactions and remittances. According to the World Bank, about 122 million people in Latin America lacked access to traditional banking and were considered underbanked. Crypto, specifically stablecoin, provides an alternative, enabling financial inclusion without banks. To build on this, countries like Argentina and Venezuela have both dealt with record-high inflation rates over 200%. By leveraging these dollar-pegged stablecoins, the South American population can use them as a reliable hedge against inflation to navigate economic instability. To the degree that the purchase of digital dollars (USDT and USDC) is almost 5 times higher than that of any other crypto currency.



While more and more South Americans are embracing crypto, stablecoins are stepping in as a reliable medium between traditional finance and the crypto realm. In the dynamic of emerging markets, stablecoins are rising as a go-to solution. It's not so surprising, they offer a smooth way to send value across borders, making them quite attractive for remittances and cross-border transactions. With their ties to major fiat currencies like the US Dollar, stablecoins offer a steady value in an economy that's no

stranger to inflation. A critical example is the surge in stablecoin use in Brazil which reflects the increasing need for stability and user-friendly options within their crypto scene. The dollar-backed stability offers a safe haven amidst market fluctuations, appealing to investors and traders alike. That's one of the reasons why Tether is the largest form of payment for some of the biggest merchants globally. It allows customers within the LatAm market to safely exchange their native currencies for a safe dollar-pegged currency without relying on cash, while also protecting customers from inflation.

Argentina has become a significant player in the Latin American cryptocurrency landscape, ranking second in the region for crypto adoption and 15th globally, according to a 2023 report by Chainalysis. The election of Javier Milei, a self-described “anarcho-capitalist,” as president has introduced a new dynamic into the country's approach to digital currencies and the broader financial system. While Milei has not fully endorsed Bitcoin or stablecoins, for that matter, his positive remarks about the cryptocurrency and criticism of central banking as “a scam” indicate a potentially favorable outlook for the digital asset sector under his administration.

The highly apparent shift towards stablecoin adoption in Argentina reflects a broader trend of seeking alternative financial solutions amidst economic turmoil. As Argentines increasingly turn to digital currencies to preserve their purchasing power, the role of stablecoins as a hedge against inflation and currency devaluation is becoming more pronounced. This movement towards digital assets, particularly stablecoins, may also signal a shift in the public's confidence in traditional banking systems and monetary policies. With the country's new leadership potentially opening the door for more crypto-friendly policies, Argentina's financial industry may be on the cusp of significant transformation, driven by the adoption of blockchain technology and digital currencies.

Embracing Stablecoins in Fintech Innovations

Latin America's fintech sector is also rapidly integrating stablecoins like USDC with key players in the region to enhance its financial services. Mercado Libre, for instance, Latam's largest e-commerce platform, now offers digital dollars through USDC, valued for its transparency and interoperability. Another example is Airtm, a peer to peer digital payment platform, that has also collaborated with the Venezuelan government and the U.S. to use USDC to bypass political barriers, demonstrating the currency's potential in humanitarian aid. Additionally, most recently, stablecoin issuer Circle officially launched in Brazil, to offer users its popular USD coin. As part of its expansion, Circle has joined forces with the largest investment bank in Latam BTG Pactual to serve as its direct USDC distribution partner in Brazil. This is partly due to necessity, since many populations within the region lack access to analog financial services and suffer from the reduced purchasing power of highly inflated currencies. Demographics also play a key role. With a population of 658 million—roughly double the U.S.—LatAm boasts around the same number of people as Southeast Asia, another hub for digital finance innovation. Nearly a quarter of this population is aged 14 or younger, giving Latin America another key advantage over other global regions with aging populations.

How Governments Factor into the Equation

Building on their policies to promote cryptocurrency regulation and reduce areas of confusion, governments' stances toward the rapid development of stablecoins and other blockchain technologies are constantly evolving. The major concern that critical players in the traditional finance system express is their inability to control the issuance and regulation over these digital currencies. In order to immerse themselves in this new market, many governments have taken on the approach of launching their own

central bank digital currencies (CBDCs). Whether it be exploring the opportunity through research, conducting a pilot project, or officially launching an initiative to the public, most Latin American countries have conveyed interest in CBDCs. This eagerness to innovate their financial technology landscape can be attributed to the following drivers: achieving financial equity, boosting payment efficiency, encouraging cross-border payments, and optimizing monetary policy.

Brazil is at the forefront of this digital economic transformation. Achieving over 145 million users on their instant payments platform Pix in just three years, Brazil has an incredibly strong track record of financial innovations. In 2020, Brazil's Central Bank began to pursue its own CBDC in the form of a Digital Real called Drex. Brazil's strategic vision of applying blockchain technology for the Drex pilot initiative showcases their commitment to exceeding the global technology benchmark. The pilot is a systematic approach to assessing the foundation for a future where digital currency thrives within Brazil's financial scene. One of the ambitions of the project is to validate the technical viability of Drex. By conducting diligence into its cybersecurity strength, blockchain protocol, and response to high transaction demand, the Central Bank will move forward with a more comprehensive invention. Another component of the case is the operational integration to existing payment infrastructures to explore a variety of use cases. Furthermore, both the regulatory compliance and economic impact are being meticulously weighed throughout this entire process to balance transparency with economic growth. Brazil's case of Drex is a key indicator of Latin American first steps toward the large-scale adoption of blockchain technology.

The Promise

Stablecoins have the potential to transform the financial landscape of Latin America by addressing long standing issues like inflation, limited access to banking services, and the high cost of cross-border transactions. As stablecoins gain wider acceptance, they can promote greater financial inclusion, offering a more stable and accessible means of saving, spending, and transferring money to all income sectors of the population. This could lead to a more integrated regional economy, reducing reliance on unstable local currencies and fostering economic stability.

With continued investment, supportive regulatory policies, and technological advancements, the region could accelerate integration of stablecoins into the financial scene and