

European Stability Mechanism



# Europe in the global stablecoin debate: risks and opportunities

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This paper examines the rapid expansion of stablecoins and their potential implications for Europe. It analyses stablecoins' economic functions, use cases, and financial stability risks, with particular attention to cross-border dynamics. The paper situates the regulatory approach of the European Union within an evolving global landscape marked by diverse policy strategies. A comparative analysis of stablecoin regulations highlights the strength of the EU framework and discusses strategic considerations for Europe in the context of an accelerated digital transformation of monetary systems.

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## Executive summary

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Stablecoins, particularly fiat-backed ones, have expanded rapidly in recent years and have become a topic of global policy interest.

Stablecoins, digital assets designed to maintain a stable value tied to a fiat currency or other assets, have become a topic of interest in global financial and policy debates. While they have existed for over a decade, their scale, use cases, and political relevance have expanded markedly since 2024, driven by increasing demand for payment efficiency, facility in cross-border usage, and a new wave of regulatory initiatives in major jurisdictions. Global stablecoin market capitalisation more than doubled between early 2024 and end-2025 to exceed USD 300 billion.

Among various categories of stablecoin, this discussion paper focuses on those that are fiat-backed, the largest category by market capitalisation. Broadly, they are tokenised claims issued by identifiable entities and backed by reserve assets such as cash, bank deposits, and short-term government securities. Their credibility rests on redemption at par into fiat currency and on confidence in reserve quality, liquidity, and segregation. They combine features of several existing instruments, such as bank deposits, money market funds, and offshore dollars and function as specialised private payment and investment tokens whose relevance increases in cross-border and digital-native environments.

Stablecoins offer various use cases but also pose several risks, in particular to financial stability.

The financial stability implications of stablecoins depend not only on their overall volume but also on how they are used. Today, stablecoins are predominantly employed within crypto markets, serving as trading and settlement assets. Other use cases, including remittances, corporate treasury management, and on- and off-ramping between fiat money and digital assets, remain smaller but are expanding. Stablecoins can transmit risks to financial stability through several channels, such as stablecoin runs, interactions with short-term government bond markets, concentration and custody risks in reserve management, interactions with traditional bank business, payment-system liquidity pressures, and cross-border foreign exchange effects.

The use and risks of stablecoins will continue to evolve, under the influence of regulations and market dynamics. Technological developments and preferences, such as the choice between different ledger systems, further improvement of interoperability, and the potential remuneration of stablecoins could reshape the tokenised finance landscape. In this context, underlying economic and institutional strengths, and their ability to adapt, are crucial to ensure a balance between innovation benefits, competition, and risks.

The future of stablecoins will be shaped by regulation, which remains fragmented globally, and by the structural features of each relevant market.

The European Union (EU) introduced a comprehensive regulatory framework for crypto assets – the Markets in Crypto-Assets Regulation (MiCAR). However, MiCAR was conceived in the context of the first wave of stablecoin initiatives (2019–2020), when markets were smaller and the dominant policy objective was to prevent the emergence of global private money outside the regulatory perimeter. The global environment has since changed, especially with the latest regulatory developments in other major jurisdictions, notably in the United States (US), where stablecoins have been elevated to an instrument of economic and strategic policy. Regulatory approaches are, however, not harmonised across jurisdictions, despite the fundamentally cross-border nature of stablecoins; geopolitical tensions and competition could eventually hinder international coordination and alignment on stablecoin regulation.

A comparison of the EU’s MiCAR and the latest and prospective stablecoin regulations show important differences in calibration and institutional design of stablecoin issuance, in normal times as well as in periods of stress. This reflects diverse strategic policy intent as well as structural features in different jurisdictions. Compared to the US, for example, Europe has a smaller and more fragmented supply of high-quality safe assets, a bank-centric financial system, and a different yield environment. Such differences in financial markets may shape market incentives and the business viability of stablecoins, and influence their development relative to other tokenised assets, such as tokenised deposits.

Europe could further calibrate its regulatory tools, promoting innovation while safeguarding financial stability and public trust

In the near term, financial stability risks in the EU remain contained, reflecting the limited scale of euro-denominated stablecoins and mitigants embedded through MiCAR. Euro-denominated stablecoins are unlikely to rival US dollar-based stablecoins globally, but they may play a complementary role in specific cross-border use cases involving euro-denominated transactions. They may find their place in the new digital economy, along with central bank digital currency (CBDC) and tokenised deposits for instance, as part of the palette of digital settlement instruments, serving different use cases. More broadly, by focusing on strengthening its financial infrastructure and maintaining a credible and adaptable approach, Europe can ensure that innovation develops in a manner consistent with financial stability and public trust.

Looking ahead, continued advancement in capital markets integration and digital financial infrastructure will also be important in supporting a resilient and competitive European digital finance landscape. The discussion paper identifies the areas where the EU could progress more effectively through continued calibration in shaping and guiding broader

tokenisation trends. These future trends could involve a myriad of asset types – stablecoins, tokenised deposits, and tokenised bonds to name a few – each with its own settlement venue, trust anchor, and risk profile.

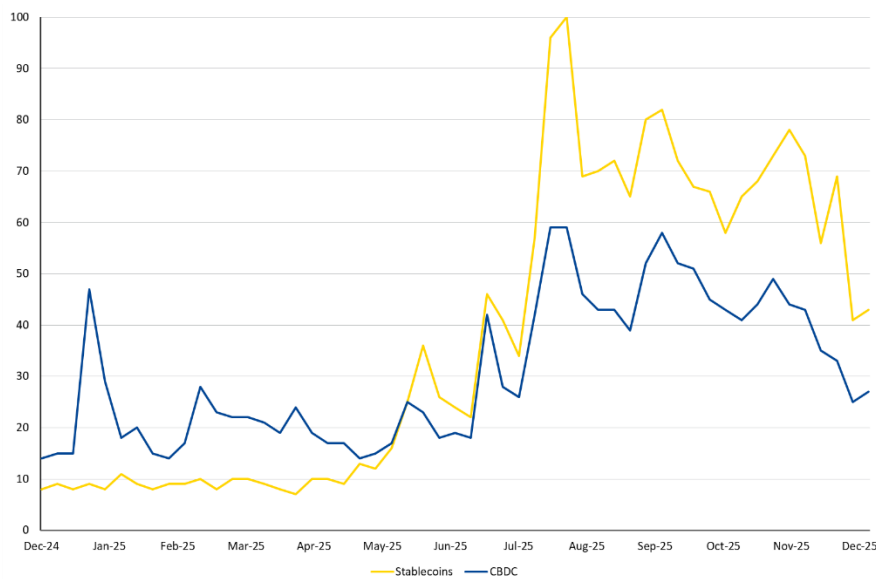
Globally, stablecoins revive the tensions of the Triffin dilemma in a digital financial ecosystem

Finally, looking at the international monetary system, stablecoins also seem to revive an old but recurrent debate on the Triffin dilemma, namely the sustainability of the US dollar's status as the most important global currency in the digital era. Tensions could emerge between intermediating global demand for US dollar liquidity through private stablecoins, financial risks inherent in stablecoins, and an ultimate expansion of US government debt, which could further weaken the US's long-term fiscal sustainability. From a systemic perspective, stablecoins neither resolve nor fundamentally transform the dilemma inherent in the provision of a global reserve currency. Instead, they reconfigure it by amplifying access to US dollar liquidity while potentially intensifying the feedback loops between private intermediation and public balance sheets.

# Introduction

Stablecoins was selected as one of the words featured in the *Financial Times*' "Year in a Word" series on the defining trends and events of 2025. This choice reflects the exceptional attention that stablecoins have attracted over the past year as they increasingly move from the periphery of crypto markets towards mainstream policy and regulatory agendas. Their renewed prominence is closely linked to a new wave of regulatory activity globally, most notably the position adopted by the US administration and the passage of the Guiding and Establishing National Innovation for US Stablecoins (GENIUS) Act in July 2025. The introduction of the GENIUS Act also coincided with accelerated regulatory efforts in other major jurisdictions. Hong Kong issued its own Stablecoins Ordinance one month after the GENIUS Act and the Bank of England launched consultation on regulating systemic stablecoins in November 2025. Mirroring these developments, Google Trends data shows that global internet search interest in stablecoins surged in late July, peaked in August 2025, and remained elevated throughout the rest of the year (Figure 1). Notably, from mid-May 2025, interest in stablecoins also exceeded that in CBDCs.

**Figure 1**  
**Popularity of stablecoins in Google Search**  
(index)



Notes: Numbers represent search interest relative to the highest point on the chart for the given region and time. A value of 100 is the peak popularity for the term. A value of 50 means that the term is half as popular. A score of 0 means that there was not enough data for this term.  
Source: Google Trends, accessed on 28 December 2025

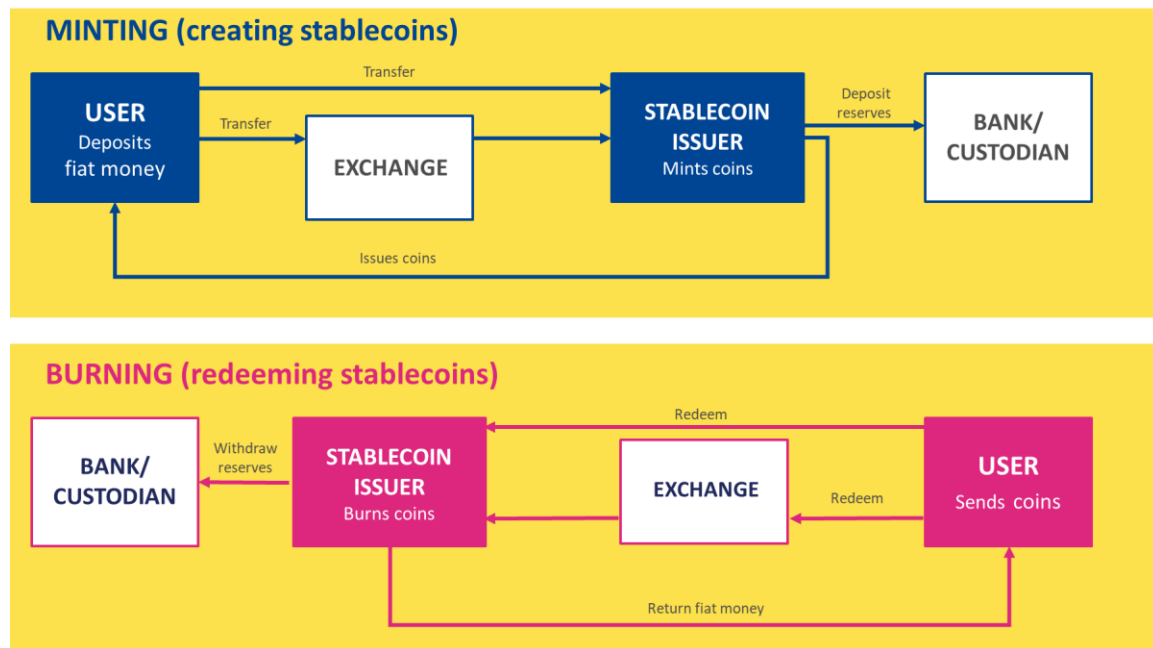
What exactly are stablecoins? The Financial Stability Board defines a stablecoin as “a crypto asset that aims to maintain a stable value relative to a specified asset, or a pool or basket of assets”.<sup>1</sup> This discussion paper focuses on stablecoins pegged to fiat currencies, such as the US dollar and the euro, and will use stablecoins and fiat-backed stablecoins interchangeably. Fiat stablecoins also dominate the market, dwarfing other forms of stablecoins such as those pegged to tangible assets, like gold, crypto asset-linked stablecoins, or algorithmic stablecoins.

Operationally, stablecoins are issued, or ‘minted’, by an identifiable issuer through a distributed

<sup>1</sup> [https://www.bis.org/fsi/fsisummaries/global\\_stablecoins.htm](https://www.bis.org/fsi/fsisummaries/global_stablecoins.htm).

ledger technology (DLT)-based system. Figure 2 illustrates this process to create (mint) or redeem (burn) a stablecoin. A user willing to hold a unit of stablecoin will transfer fiat money to a stablecoin issuer, usually through off-ramp (traditional) transfer channels, or via a crypto exchange if a stablecoin issuer does not interact directly with retail customers. The issuer will deposit a set of reserve assets with a custodian, like a bank, as per regulatory requirements. Upon issuance, a stablecoin token is minted and the issuer commits to the future redemption of the stablecoin at the reference value, subject to the rules of the arrangement. When a holder seeks to redeem a stablecoin, the issuer is expected to honour this request and remove the corresponding token from circulation by “burning” it on the ledger. Accordingly, this will also reduce the issuer’s reserve deposit with the custodian. Through this process, which is in essence narrow banking, stablecoins’ credibility rests on redemption at par into fiat currency and on confidence in reserve quality, liquidity, and segregation. To safeguard this credibility, jurisdictions have progressively introduced regulatory frameworks addressing key elements of stablecoin arrangements, including governance structures, risk profiles, legal claims, and safeguards designed to support the stabilisation objective. We elaborate on the relevant regulatory requirements in Chapter 3.

Figure 2  
Stablecoin flow: minting and burning processes



Note: Depending on specific fiat-backed stablecoins, issuers may choose to mint and burn new stablecoins with institutional customers only, meaning that retail customers rely on exchanges to access the stablecoin.

Source: Author

In essence, stablecoins sit at the intersection of DLT-based innovation, notably blockchain, and traditional financial functions. From a technological perspective, a stablecoin is a tokenised instrument issued and transferred on a distributed ledger, where transaction records, validation, and settlement are performed on a blockchain infrastructure. Depending on the design, this infrastructure may rely on decentralised validation mechanisms rather than a single central operator. From this standpoint, stablecoins share technological features with other tokenised financial instruments, such as tokenised deposits, CBDCs, or tokenised securities.

From a financial perspective, stablecoins are distinguished from other crypto assets by the presence of a predefined stabilisation objective. Unlike some other tokenised instruments whose value fluctuates freely, stablecoins are designed to maintain a relatively stable exchange value, typically with reference to a fiat currency or a defined set of assets. This stabilisation

feature underpins their intended use in payments and settlements and, in some cases, as a store of value. It is this explicit value-stability aim, rather than the underlying technology alone, that sets stablecoins apart within the broader universe of digital and tokenised finance.

The stablecoin market has expanded rapidly in recent years, with particularly strong growth observed in 2025. According to DefiLlama data, the global market capitalisation of stablecoins more than doubled, rising by over 130% between January 2024 and December 2025, to exceed USD 308 billion.<sup>2</sup> The market remains overwhelmingly dominated by US dollar-denominated stablecoins, which account for close to 99% of total issuance. The two leading US dollar-backed stablecoins, USDT issued by Tether and USDC issued by Circle, reached market capitalisations of USD 187 billion and USD 76 billion respectively by end-2025, together representing around 86% of the total stablecoin market.

Looking ahead, the stablecoin market is expected to continue growing, although estimates vary widely. The Citi Institute (2025) outlines three scenarios under which the market expands to around USD 1.9 trillion in a base case and up to USD 4 trillion in a bull case over the medium term. By contrast, J.P. Morgan<sup>3</sup> offers more conservative projections, suggesting that market capitalisation could increase by a factor of two to three from current levels, reaching approximately USD 500–750 billion by 2028. Emerging market economies are expected to be the largest source of demand for US dollar-based stablecoins. A scenario analysis by S&P Global Ratings (2025) estimates that foreign currency stablecoin adoption across a sample of 45 emerging markets could rise from around USD 70 billion today to between USD 250 billion and USD 730 billion by 2030. Over the same horizon, the agency also projects growth in euro-denominated stablecoins, from a very low base of roughly €650 million at end-2025 to a range of between €25 billion and €1.1 trillion (S&P Global Ratings, 2026).

Of course, the future expansion of stablecoins depends on many factors and cannot be analysed in isolation from developments in alternative digital or tokenised assets, financial stability concerns and safeguards, as well as from regulatory developments both locally and globally. These factors interact with each other.

At present, stablecoins are used predominantly as a trading currency for on-chain crypto and decentralised finance (DeFi)<sup>4</sup> activities, as Table 1 illustrates. Other use cases, such as retail payments, corporate treasury management, cross-border payments (particularly remittances), and on- and off-ramping between crypto assets and fiat money remain relatively small in scale, but there are signs of further adoption in these areas, which could boost demand for stablecoins. The industry continues to see announcements of stablecoin issuances, such as the first government-issued stablecoin, the US Wyoming State's Frontier Stable Token made available to the public in January 2026, for both institutional and retail use.<sup>5</sup> Sony Bank in Japan is considering launching its own US dollar-pegged stablecoin in the market, to be used for payments across its gaming and anime ecosystem.<sup>6</sup> In Europe, a consortium of banks, Qivalis,<sup>7</sup> is expected to launch a euro-denominated stablecoin.

Stablecoins may also generate significant risks, stemming from the credibility of the par value conversion, but also through risk transmissions to the traditional financial system, such as

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<sup>2</sup> See <https://defillama.com/stablecoins>.

<sup>3</sup> See <https://www.jp.morgan.com/insights/global-research/currencies/stablecoins>.

<sup>4</sup> Decentralised finance or DeFi refers to financial applications that are built on DLT and offer services such as lending, investing, or exchanging crypto-assets without relying on a traditional centralised intermediary. For more details, see Auer et al. (2023).

<sup>5</sup> See <https://stabetoken.wyo.gov>.

<sup>6</sup> See <https://sonybank.jp/en/corporate/topics/2025/1205-01.html>.

<sup>7</sup> See [Qivalis - Secure. Trusted. Future-ready.](#)

government bond markets and banks. Materialisation of financial stability risks associated with stablecoins differ materially across use cases, underscoring that systemic relevance depends not only on scale but also on how stablecoins are used. Three risk channels – spillovers to government treasury markets, the risk of stablecoin runs, and reserve concentration and custody risk – are intrinsic to the design of fiat-backed stablecoins and therefore cut across all use cases. These risks arise from the need to hold large volumes of high-quality liquid assets, the promise of par convertibility, and reliance on a limited set of custodians and counterparties, and they would intensify mechanically as stablecoin issuance scales up, irrespective of the specific application.

**Table 1**  
**Stablecoins' use cases and their estimated current market shares**

Use case	Description	Estimated current market share
Crypto trading, DeFi, and tokenised assets	<ul style="list-style-type: none"> <li>• Primary use case today.</li> <li>• Used as counterpart trading currency in most crypto trading.</li> <li>• Activity is predominantly on-chain (trading, lending, liquidity provision).</li> </ul>	~90%
Retail payments	<ul style="list-style-type: none"> <li>• Used for everyday purchases but still limited beyond crypto-native environments.</li> <li>• Adoption grows faster in emerging markets</li> </ul>	~2%
Cross-border payments and remittances	<ul style="list-style-type: none"> <li>• Fast, low-cost international transfers.</li> <li>• Most used in corridors involving transfers to emerging markets.</li> <li>• Strongest adoption in Latin America, Africa, and Southeast Asia.</li> </ul>	~2–5%
Treasury management	<ul style="list-style-type: none"> <li>• Corporates explore stablecoins for treasury, supply chain, and programmable payment use cases.</li> <li>• Early but growing interest.</li> </ul>	~2%
Other	<ul style="list-style-type: none"> <li>• Include on-/off-ramping.</li> </ul>	~2%

Sources: Deutsche Bank Research Institute, Citi Institute, and the author's calculation.

Regulatory efforts began at an early stage, in response to the initial launches of stablecoins and their associated risks. Following the first wave of large-scale private initiatives, such as Facebook's Libra project (Libra Association, 2020), the Financial Stability Board issued 10 high-level recommendations in 2020 to address the regulatory, supervisory, and oversight challenges posed by global stablecoin arrangements (Financial Stability Board, 2020). Against this backdrop, the EU was among the first major jurisdictions to establish a dedicated regulatory framework for crypto assets through the adoption of MiCAR (Regulation (EU) 2023/1114).

Since then, however, the global regulatory environment for stablecoins has evolved significantly. Recent legislative initiatives, notably in the US, as well as ongoing policy proposals in several other jurisdictions, have introduced different regulatory approaches and design features. These developments are unfolding in a context of heightened geopolitical tensions, where some jurisdictions increasingly view stablecoins as instruments serving broader political economy objectives, including the reinforcement of the international role of a currency. At the same time, concerns have intensified regarding regulatory fragmentation and divergences in the implementation of stablecoin regulations across jurisdictions. Such risks have been highlighted by both the Financial Stability Board and the International Organization of Securities

Commissions (IOSCO) in their recent monitoring of progress against international high-level recommendations for crypto-asset markets and global stablecoin arrangements (Financial Stability Board, 2025; IOSCO, 2025a).

Against this backdrop, this discussion paper aims to assess stablecoin developments, notably their complementarity with pre-existing instruments in the financial landscape, and the risks they may pose to financial stability. The paper also places particular emphasis on the evolving global regulatory landscape and its implications from a European perspective, against the broader EU agenda on innovation and competitiveness.

This paper builds on a rapidly expanding body of literature on stablecoins. Academic research has focused in particular on stabilisation mechanisms, market competition by tokenised instruments, and channels of risk transmission (e.g. Arner et al. 2020; Goel et al., 2024; Ahmed and Aldasoro, 2026; Ma et al., 2026; Frost et al., 2025). In parallel, international organisations and policy-oriented institutions have produced comparative analyses of regulatory frameworks, highlighting cross-jurisdictional differences and emerging tensions in global approaches (e.g. Ahmed et al., 2025a; AMRO, 2025; Adrian, 2025; International Monetary Fund, 2025; IOSCO, 2025a, b). Industry and rating-agency publications have complemented this work by documenting market developments, emerging use cases, and evolving risk profiles (e.g. Citi Institute, 2025; Circle, 2026; Moody's Ratings, 2026). This discussion paper seeks to integrate insights from these strands of the literature from a European perspective and discusses policy choices for making the European framework both resilient and adaptative to the evolution of digital finance. Detailed engagement with the relevant literature is provided in the chapters that follow, aligned with the thematic focus of each section.

The remainder of this discussion paper is organised as follows. Chapter 1 places stablecoins within the monetary and financial landscapes, comparing them with other digital and more traditional instruments, such as CBDCs and bank deposits. Chapter 2 identifies the main risk transmission channels of stablecoins into domestic financial systems, as well as cross-border spillovers. Chapter 3 discusses the EU's MiCAR in the global regulatory landscape, presenting a regulatory comparison, focusing on five aspects of stablecoin regimes: (i) strategic objectives and policy intent; (ii) stabilisation mechanisms; (iii) prudential safeguards; (iv) technological infrastructure and (v) cross-border aspects. Chapter 4 reflects on open points for calibration. The concluding chapter places the debate on stablecoins within the dynamics of the international monetary system and considers implications for the role of the euro in the era of digital finance.

## **1. Stablecoins in the monetary and financial landscape**

## Chapter introduction

In the current debate about stablecoins, one issue pertains to the comparison between stablecoins and various existing monetary and financial instruments,<sup>8</sup> both traditional and digital: whether the rapid adoption of stablecoins could lead to competition with or substitution of these instruments. For instance, in the EU, policymakers have called for the accelerated development of the digital euro – the euro area’s CBDC – as a counterweight to private decentralised stablecoins with a view to safeguarding Europe’s monetary sovereignty amid the fast-growing use of foreign-currency stablecoins (European Central Bank (ECB), 2025). This concern has intensified following the introduction of the GENIUS Act with which the current US administration aims to further consolidate the global role of US dollar.

To clarify the functional characteristics of stablecoins and assess the potential implications of their large-scale adoption, this paper proposes a conceptual framework comparing stablecoins with a selected set of other instruments: CBDCs; cryptocurrencies; money market mutual funds (MMMFs); bank deposits; Eurodollars (i.e. offshore dollar liquidity raised in international capital markets and placed with banks); and credit cards issued by large retailers, such as Walmart or Amazon.

The conceptual framework, illustrated in Figure 1.1, assesses the complementarity and substitutability of stablecoins along two dimensions. The vertical axis captures the degree of functional differentiation relative to stablecoins – that is, whether stablecoins provide additional and distinct functions or services compared with other instruments. The horizontal axis captures whether the joint use of stablecoins with other instruments generates network effects, such that greater stablecoin adoption and the use of those instruments can reinforce each other.

The top-right quadrant, labelled complementary use, comprises the monetary and financial instruments that perform functions clearly distinct from those of stablecoins and whose joint use with stablecoins may be reinforced by network effects arising from the adoption of tokenised instruments. As discussed in detail below, CBDCs, as central bank money, sit at the top of the monetary hierarchy and therefore occupy a different functional space from stablecoins. Other cryptocurrencies (e.g. Bitcoin), by contrast, primarily serve as on-chain investment or speculative assets rather than as payment instruments. Nevertheless, both can benefit from stablecoins’ expansion. For example, stablecoins often serve as on-chain anchor assets with a relatively stable value, facilitating trading and liquidity provision in crypto markets. In this sense, instruments in this quadrant and stablecoins are heterogeneous, potentially interoperable, and largely non-rival.

Turning to the top-left quadrant, labelled specialised competition, the instruments in this category provide functionally differentiated services but are typically used in distinct contexts or by different user groups with less pronounced network effects. In addition, rivalry could even emerge under specific market conditions or at particular points in time. For example, MMMFs are primarily investment vehicles, whereas stablecoins are bearer instruments mainly used for payments and settlement. Despite these differences, they share certain design features, most notably their stabilisation mechanisms, and end users may switch between them, particularly during periods of market stress.

Potential substitution effects become more pronounced in the lower quadrants, where

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<sup>8</sup> Throughout the paper, monetary and financial instruments are understood in the broad sense, including any instruments that serve the purpose of means of transaction, unit of account, settlement, store of value and investment. As such, unless specified otherwise, “financial instruments” does not necessarily reflect the relevant regulatory definition, notably the one contained in Directive 2014/65/EU (MiFID II).

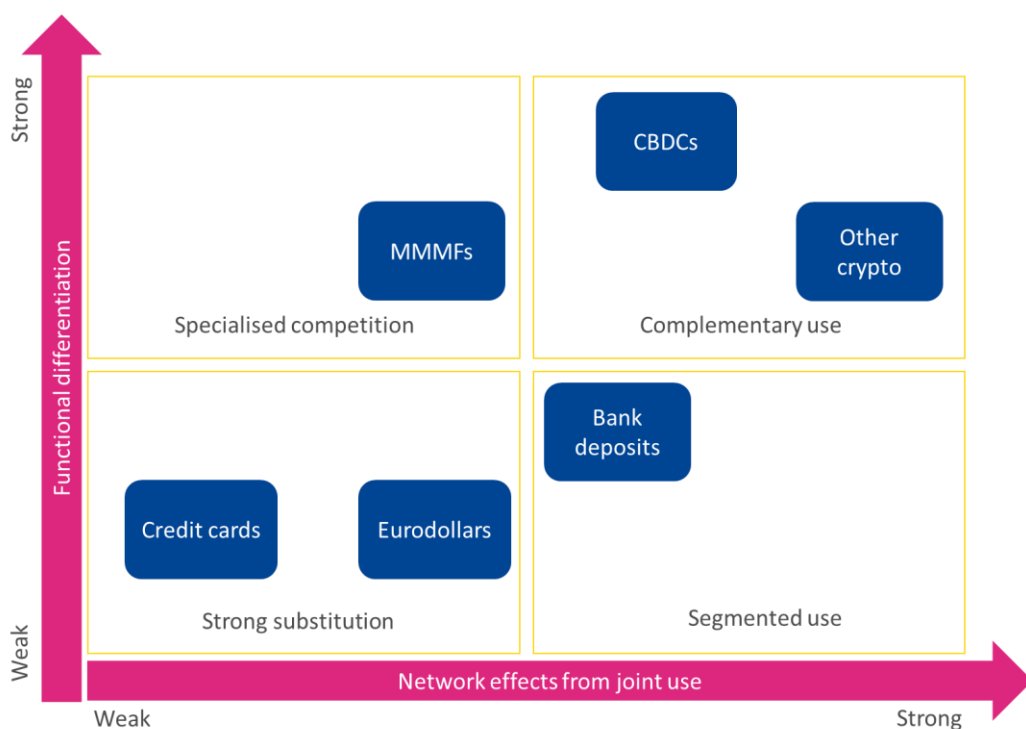
stablecoins and the other instruments considered perform broadly similar functions. In the lower-right quadrant, labelled segmented use, stablecoins and bank deposits are both forms of private money and can be positioned relatively close to one another within the monetary hierarchy. At present, however, they tend to serve different markets or user segments, reflecting differences in factors such as interest rates, geographic reach, or user demographics. Moreover, traditional bank deposits benefit from (limited) deposit insurance and access to central bank liquidity backstops – protections that stablecoins do not currently enjoy, and which might encourage the joint holding of both instruments.

By contrast, the lower-left quadrant represents strong substitution, where instruments provide largely homogeneous services to the same users without generating additional network effects through joint use. For example, traditional Eurodollars can be understood as offshore US dollar deposits intermediated by banks, or equivalently as offshore US dollar funding raised in capital markets, while stablecoins represent an offshore digital form of the US dollar issued and transferred via blockchains. In this context, stablecoin regulation, and, critically, its practical implementation, including accounting, prudential, and supervisory treatment, will play a key role in determining the extent to which digital stablecoins substitute for traditional offshore dollar instruments.

The following sections discuss each pair of relationships in detail.

Figure 1.1

#### Stablecoins versus selected financial instruments: complements or substitutes?



Note: Credit cards refer notably to cards jointly issued by a retailer and a credit card company.

Source: Author

#### Stablecoins and central bank digital currencies

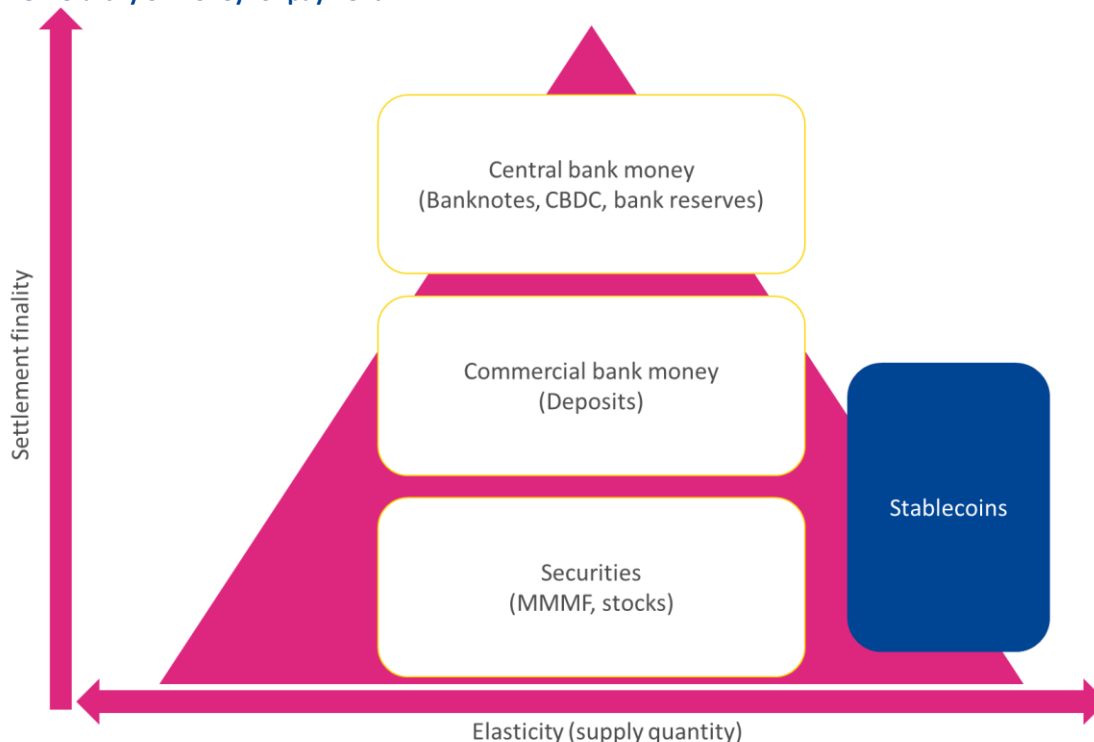
We first dive into the relationship between stablecoins and central bank money, especially CBDC. In this section, we focus on stablecoins pegged to local fiat money, leaving the discussion on foreign-currency stablecoins to a later section comparing stablecoins with Eurodollars.

Despite frequent analogies between stablecoins and central bank money, stablecoins do not meet the three tests of money set out by the Bank for International Settlements (2025) and therefore cannot perform the three core functions of money – means of payment, unit of account, and store of value – as robustly as central bank money. In this sense, stablecoins add value primarily as an additional digital means of payment, but their credibility and smooth functioning depend critically on reliable convertibility into fiat money.

As regards the payment function, central bank money – in its traditional or digital format – sits at the top of the hierarchy of money, as it provides the ultimate safety and guaranteed settlement finality. Namely, transactions in central bank money are final, irrevocable, and free of credit and liquidity risks. What positions central bank money as the ultimate anchor of the monetary system is its freedom from credit and liquidity risk. The credit strength derives from the sovereign state’s backing. And the liquidity strength stems from the central bank’s unique capacity to create money *ex nihilo*, issuing liquidity without operational constraints. In exchange, the central bank must fulfil its mandate of price stability, ensuring the internal value of its currency remains stable. Moreover, the central bank acts as lender of last resort, providing liquidity in times of stress and preventing systemic liquidity runs.

In comparison, stablecoin transfers achieve rapid and technically robust settlement at the ledger level based on a consensus mechanism, thus without a single centralised operator, and settlement finality thus depends on the design of the consensus mechanism and the legal, institutional, and governance arrangements surrounding the issuer. Stablecoins thus sit on a lower tier in the monetary hierarchy, to an extent closer to forms of private money, such as commercial bank deposits (Figure 1.2).

Figure 1.2  
The hierarchy of money for payment



Sources: Mehrling (2013) and the author’s depiction

Stablecoins’ convertibility into fiat money therefore lies at the core of their credibility. In this respect, stablecoins are often analogised to currency board arrangements, which sustain confidence through full or near-full reserve backing. Historical experience, however, suggests

that successful currency boards are relatively rare. Among economically significant cases, Hong Kong SAR has maintained such an arrangement since 1983, supported by substantial reserve accumulation and, during the Asian financial crisis, by implicit backing from the central government of China. Several central and eastern European countries also ran currency boards vis-à-vis the euro, before joining the euro area.

In today's context of tokenised funds, Coste and Pantelopoulos (2025) argue that stablecoins can function as fungible means of payment provided that: (a) their ledgers ensure credible and irreversible settlement mechanisms; (b) issuers maintain robust liquidity and capital positions to meet regulatory and client obligations; and (c) their underlying payment and settlement technologies are interoperable with traditional systems.

Beyond the possible functional complementarity between digital central bank money and stablecoins, both instruments may rely on similar DLTs. Adoption of either instrument could familiarise users with digital tokens, demonstrate new use cases, and help identify and address operational or regulatory constraints, thereby supporting the future scaling up of digital payment instruments. Recent years have shown that the private sector has been at the forefront of innovation and customisation in digital finance. Stablecoins, which have been primarily driven by private initiatives, have explored the use of DLT in financial applications and may therefore provide valuable insights for central banks' ongoing discussions on digital central bank money.

On the other hand, the development of CBDCs could significantly strengthen digital market infrastructure, enhancing the interoperability of digital assets and payment systems, including stablecoins. A well-designed CBDC could promote the three layers of interoperability essential for the fungibility of any digital financial instrument (Boar et al., 2021; Committee on Payments and Market Infrastructures, 2024; Coste and Pantelopoulos, 2025), especially stablecoins:

- 1) Technical interoperability, ensuring systems and ledgers can interact securely and efficiently;
- 2) Semantic interoperability, enabling consistent interpretation and processing of data; and
- 3) Business interoperability, establishing clear rules and obligations for transaction clearing and settlement.

CBDC development can directly enhance each of these interoperability dimensions. For example, as advocated by the Bank for International Settlements (2025), the concept of a unified ledger – a shared infrastructure accessible to central banks, stablecoin issuers, and other financial intermediaries – could strengthen technical interoperability by allowing systems, applications, and smart contracts to interact seamlessly without additional middleware or reconciliation layers. At the same time, central banks can use CBDC design to foster semantic interoperability by setting common data standards and reference models, reducing inconsistencies in how digital assets are recorded and interpreted across platforms. Finally, as both operators and regulators of payment systems, central banks are uniquely positioned to establish the governance and contractual frameworks that underpin business interoperability, clarifying rights, obligations, and settlement rules for digital tokens.

From an operational standpoint, development of CBDCs can also address some bottlenecks that stablecoin adoption has revealed. For instance, moving fiat money to the on-chain ecosystem or mapping between assets in traditional databases and their counterparts in tokenised form through so called ramps is far from a smooth and easy process. Access to on-/off-ramp conversion channels varies across jurisdictions, as not all banks or payment service providers support transfers to crypto exchanges. In practice, a significant share of on-ramp activity relies on peer-to-peer mechanisms, which tend to involve transaction size constraints and may

operate outside formal regulatory channels, including in jurisdictions where restrictions on cryptocurrency-related activities are in place (Reuter, 2025). As envisaged by the Bank for International Settlements (2023 and 2025), central banks could promote a new type of financial market infrastructure – a unified ledger – to facilitate smooth bridges between central bank money, tokenised deposits, and tokenised assets on a programmable platform, simplifying the on-ramping process in tomorrow’s digital finance world (Adrian and Mancini-Griffoli, 2023).

We must also note that beyond the analytical distinction between the functions and network effects offered by CBDCs and stablecoins, regulatory choices and political priorities can ultimately shape their relationship. In the US, recent legislative and policy developments, most notably the GENIUS Act, have signalled a preference for privately issued, dollar-denominated stablecoins. By contrast, China has pursued the opposite approach, actively promoting its digital currency (the e-CNY) while maintaining a comprehensive ban on cryptocurrency-related activities. These divergent regulatory paths illustrate how policy decisions, rather than technological or functional considerations alone, can decisively influence the relative roles of CBDCs and stablecoins across jurisdictions.

### Stablecoins and other crypto currencies

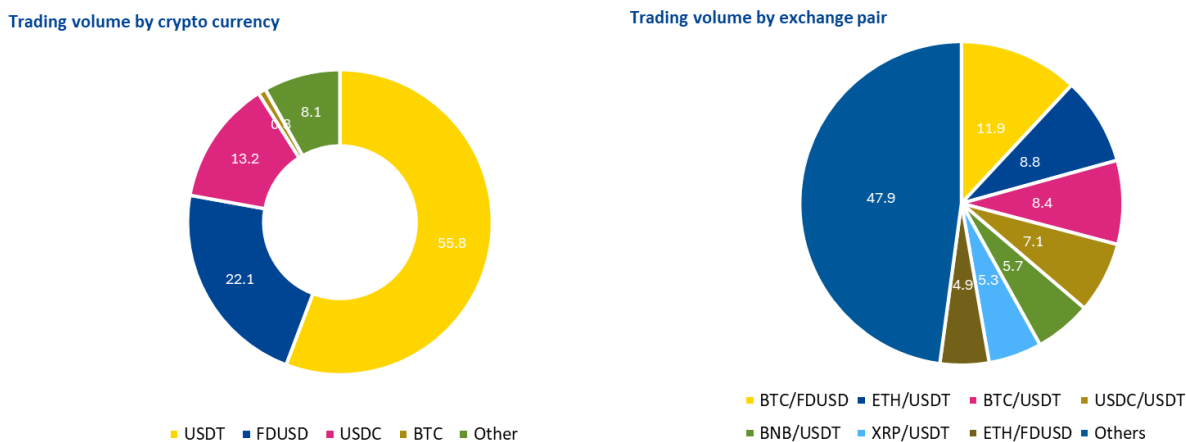
Within our conceptual framework, stablecoins also provide additional value to other cryptocurrencies, which largely predate the more recent development of stablecoins. In particular, stablecoins address a persistent challenge in crypto markets: the high price volatility of crypto assets and the lack of efficient, real-time mechanisms to move between fiat and crypto ecosystems. These frictions have historically made it difficult for market participants to value assets consistently, lock in gains, or transact seamlessly across platforms.

By committing to convertibility at par with the underlying fiat currency, stablecoins provide a more stable medium of exchange and unit of account, thereby enhancing liquidity and usability within crypto markets. In this respect, stablecoins perform functions that are complementary to those of other cryptocurrencies, which are primarily held for investment or speculative purposes. Moreover, their joint use can generate additional network effects for users, as stablecoins serve as an infrastructure layer that facilitates trading, valuation, and settlement across volatile digital assets while anchoring investment outcomes within the crypto ecosystem. As a result, stablecoins have become, to some extent, a unit of account for on-chain trading in crypto markets, underpinning most trading pairs and denominating asset prices. This role has been further reinforced by greater regulatory clarity following the introduction of payment stablecoin frameworks in several major jurisdictions.

As shown in Figure 1.3, stablecoins account for the bulk of trading activity on the world’s largest centralised crypto exchange, Binance (with USD 34 trillion total trading volume in 2025).<sup>9</sup> The three largest stablecoins – Tether’s USDT, First Digital Labs’ FDUSD, and Circle’s USDC, represent approximately 91% of total trading volume. This dominance arises because stablecoins typically serve as the quote currency for trading other crypto assets (right-hand panel), including Bitcoin, Ethereum, and Binance Coin. When the analysis is expanded beyond Binance to include other major centralised exchanges – such as Poloniex, Bitfinex, Huobi, OKX, Bittrex, Coinbase, Kraken, and Bitstamp – stablecoins appear in roughly 85% of all trading pairs, reaffirming their central medium-of-exchange role in the crypto ecosystem.

<sup>9</sup> See <https://www.prnewswire.com/in/news-releases/binances-2025-end-of-year-report-trust-liquidity-and-web3-discovery-302657209.html>.

**Figure 1.3**  
**Stablecoins have become the dominant settlement currency on crypto exchanges: illustration from Binance**  
 (in %)



Note: Data accessed on 8 October 2025 from <https://www.coingecko.com/en/exchanges/binance>.  
 Sources: CoinGecko and the author's calculations

By providing a nominal on-chain anchor, stablecoins have boosted market liquidity, narrowed bid-ask spreads, and facilitated capital inflows and outflows between the crypto and fiat worlds. Empirical evidence supports this functional role: Wei (2018) finds that Tether issuances significantly increase Bitcoin trading volumes – enhancing liquidity – though they do not affect subsequent Bitcoin returns.

Beyond centralised exchanges, DeFi protocols rely heavily on stablecoins. For instance, stablecoins are commonly deposited as collateral for lending and borrowing. They are often paired with other tokens in liquidity pools that support DeFi staking derivatives.<sup>10</sup> They serve also as a relatively price-stable base asset to generate returns through liquidity provision. The DeFi infrastructure has attracted additional participants seeking on-chain yield opportunities and, in turn, has reinforced the role of stablecoins as the predominant settlement asset and unit of account for trading activity within the crypto ecosystem.

In conclusion, stablecoins and cryptocurrencies exhibit a symbiotic relationship. Stablecoins provide relative price stability, liquidity, and transactional efficiency, while other cryptocurrencies offer volatility and investment characteristics that underpin market activity. Together, they form a complementary dual structure – one primarily serving stabilising and transactional functions, and the other driven largely by investment and speculative dynamics – that supports the growth and functioning of digital asset markets. Further clarification of the accounting treatment of stablecoins – whether they can be treated as cash or cash equivalents – could reinforce their role as anchor instruments within the crypto ecosystem.

### Stablecoins and money market funds

Stablecoins and MMMFs share important design similarities but provide varying functions to

<sup>10</sup> As noted by European Banking Authority and European Securities and Markets Authority (2025) “staking” may refer to a number of different activities and is often used in crypto-asset markets interchangeably with terms such as “earn” and “yield farming”, the official definition being: “The process of immobilizing crypto-assets to support the operations of PoS [Proof of Stake] and PoS-like blockchain consensus mechanisms in exchange for the granting of validator privileges that can generate block rewards.” In this context, we refer to derivative staking as the process where a user stakes a token through a protocol and receives a derivative token that represents the staked position. The derivative can be traded, used as collateral, or deployed in other DeFi applications. The underlying assets continue to earn staking rewards.

users. Both instruments aim to maintain a par value by investing primarily in high quality, short-term assets: a one-to-one convertibility between stablecoins and their underlying fiat currency, and a fixed value of fiat currency per share for MMMFs.

When examining the balance sheets of fiat-pegged stablecoin issuers and some US MMMFs, like US government MMMFs, a similar asset composition emerges. They both hold cash, US Treasury securities, and repurchase agreements (repos) to back their liabilities. Some stablecoins, such as Tether's USDT, also hold non-government money market instruments, including commercial paper and certificates of deposit – behaving more like prime MMMFs. As a result, stablecoin issuers and MMMFs could potentially compete for similar sets of assets, such as safe government securities, especially if the stablecoin market expands rapidly. In the same vein, in Europe, public debt constant net asset value MMMFs must invest at least 99.5% of their assets in public debt securities issued by EU Member States or equivalents (Regulation (EU) 2017/1131 on money market funds).

In terms of their functions, stablecoins primarily serve as non-interest-bearing means of payment, whereas MMMFs are investment instruments that typically offer higher returns than standard checking or savings accounts. As discussed above, stablecoins also play an important role as a unit of account and as an on- and off-ramp between fiat money and crypto assets. In this respect, MMMFs and stablecoins generally cater to different user groups and use cases, with limited network effects between them.

In addition, given their design similarities, rivalry could emerge between stablecoins and money market funds during periods of market stress, when investors make a 'flight to quality'. Since both asset types rely on reserve asset backing to preserve par redemption, competition intensifies under stress as investors reallocate away from the instruments perceived to be riskier, both within and across categories.

There is a growing literature on the relationship between US dollar-pegged stablecoins and US MMMFs. Oefele et al. (2024) document a sharp flight to quality following the Silicon Valley Bank shock in March 2023, with USD 316 billion of inflows into money market funds and USD 3 billion of outflows from stablecoins. Similarly, Aldasoro et al. (2025) show that stablecoins exhibit a significant response to crypto-market shocks, with their market capitalisation declining by roughly four percentage points after three months, whereas MMMF assets under management remain largely stable.

Regulation and access to emergency support are key differentiators and could further affect the relationship between MMMFs and stablecoins in the future. MMMFs have long been regulated to prevent 'breaking the buck'. Following the 2008 financial crisis, the US Securities and Exchange Commission's Rule 2a-7 imposed stricter liquidity requirements, redemption gates and fees, and daily net-asset-value disclosures. In contrast, stablecoin regulation remains nascent, and in the US, the rules on reserve asset composition and disclosure are not yet as robust as those applied to MMMFs. During episodes of acute stress, such as March 2020 with the outbreak of the Covid-19 pandemic, the Federal Reserve developed a Money Market Mutual Fund Liquidity Facility to provide indirect emergency liquidity support by allowing banks to purchase MMMF assets and pledge them to the Fed. Although the facility expired in March 2021, it demonstrated the Federal Reserve's willingness to backstop MMMFs in times of distress. The Standing Repo Facility now provides an ongoing liquidity backstop to MMMFs, though it does not guarantee redemption rights. By contrast, stablecoins currently lack access to any form of central bank support. Regulations may of course evolve in the future. In its latest proposed regulatory regime for sterling-denominated systemic stablecoins, the Bank of England has proposed that stablecoin issuers must hold at least 40% of backing assets as unremunerated central bank deposits and is considering giving systemic stablecoin issuers access to a central bank liquidity backstop.

Moreover, major MMMF managers have begun developing tokenised MMMFs, effectively bringing MMMFs from an account-based to an on-chain ecosystem. Tokenisation enables around-the-clock trading, instantaneous record-keeping, and real-time ledger updates, while reducing minimum investment thresholds. These digital MMMFs offer comparable efficiency and usability to stablecoins, but with the added advantage of interest generation, a potential differentiator as stablecoins face regulatory prohibition on generating interest.

For now, the scale of fiat-pegged stablecoins remains modest compared with MMMFs. As of August 2025, data from the US Office of Financial Research show that total net assets of publicly offered government MMMFs reached USD 6.3 trillion, representing 81% of all publicly offered MMMFs. By contrast, the combined market capitalisation of Tether's USDT and Circle's USDC stood at USD 239 billion (less than 4% of the volume of government MMMFs). Yet when considering net purchases of US Treasury securities, stablecoin issuers were not far behind J.P. Morgan's government MMMFs (Aldasoro et al., 2025), suggesting a growing footprint in sovereign funding markets.

### **Stablecoins and bank deposits**

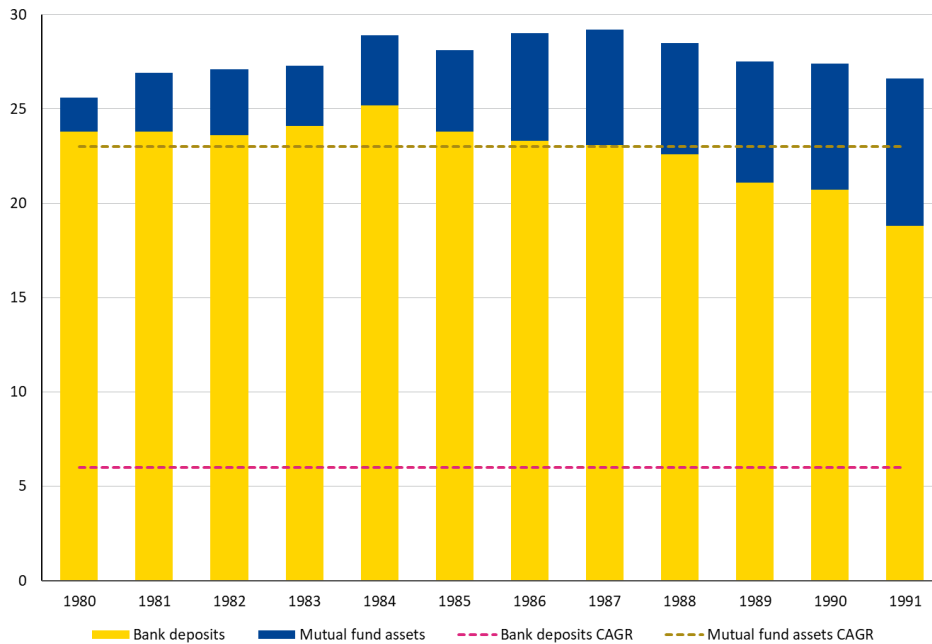
The relationship between stablecoins and bank deposits is complex; they offer closely related functions to users, which creates the potential for direct competition.

The historical experience with the introduction of MMMFs in the 1980s in the US provides a useful parallel for assessing potential competitive dynamics between stablecoins and bank deposits. As shown in Figure 1.4, the share of bank deposits in household financial assets declined from 23.8% in 1980 to 18.8% in 1991, while the share of mutual fund assets, including MMMFs, increased from 1.8% to 7.8% over the same period. Over this timeframe, the compound annual growth rate of mutual fund assets was nearly four times that of bank deposits. A similar pattern has emerged more recently in China, where Yu'e Bao, an MMMF embedded in Alipay's digital payments ecosystem, expanded rapidly to more than CNY 1.5 trillion between 2013 and 2018, drawing funds away from traditional bank deposits. A key difference with respect to stablecoins, however, is that MMMFs are yield-generating instruments and therefore compete directly with bank deposits, whereas stablecoins are non-interest-bearing bearer instruments, at least for the time being.

In addition, bank deposits benefit from limited deposit insurance, and banks have access to central bank liquidity backstops in the event of funding stress, offering a level of consumer protection that stablecoins do not currently provide.

Moreover, regulatory restrictions on stablecoins' remuneration further tilt the competitive balance in favour of bank deposits. In the EU, regulations impose a strict prohibition on interest payments and other financial incentives linked to stablecoin issuance and related services, whereas in other jurisdictions non-interest incentives are subject to less stringent controls. We elaborate on this regulatory difference in Chapter 3.

**Figure 1.4**  
**Share in household financial assets and their growth rates**  
 (in %)



Note: CAGR=Compound Annual Growth Rate.

Sources: Stablecoins 2030 Web3 to Wall Street, Citigroup report, the author's calculations

Banks have also become increasingly active in bringing deposits on chain, enabling instant, continuous transfers and the use of programmable features through smart contracts for bank clients. Tokenised deposits are a digital representation of credit balances issued by banks and provide retail and institutional users with exposure to tokenised financial instruments within a regulated banking framework (Cambridge Centre for Alternative Finance, 2026). In doing so, they may familiarise users with DLT and programmable payments without requiring a shift away from the traditional banking relationship. In fact, based on existing cases, tokenised deposits are currently account-based, bound to the identity of the account holder and, as a non-bearer instrument, the claim is not directly transferable to a non-client of the bank (European Banking Authority, 2024).<sup>11</sup>

Tokenised deposits can also serve as a bridge between off-chain money and on-chain payment, settlement, and investment activity. By allowing bank money to circulate within tokenised environments, they enable traditional banking institutions to interface directly with digital finance infrastructures. This bridging function may generate positive network effects by lowering entry barriers for users and institutions that would otherwise remain outside tokenised ecosystems. In turn, this can indirectly support the adoption of stablecoins in specific use cases where public blockchain access, cross-border reach, or interoperability are required.

Stablecoins and tokenised deposits can therefore be viewed as complementary instruments that serve different users and purposes. As shown in Table 1.1, they differ in terms of access, use cases, and technological architecture. Stablecoins can be accessed without a bank account – on-ramping can take place through peer-to-peer transfers for instance – and may therefore serve unbanked or underbanked users. They are predominantly used for crypto asset trading and certain cross-border payments. By contrast, tokenised deposits in non-bearer form are

<sup>11</sup> European Banking Authority (2024) also observes that a token-based model may also be contemplated, akin to a bearer instrument, but would need careful assessment against the applicable regulatory framework.

suited to domestic retail payments, business-to-business transactions, treasury management, and collateral mobility, mostly within a bank's ecosystem. Interbank operations involving tokenised deposits would require interbank coordination as regards anti-money laundering checks as well as settlement platform and rules.

From the angle of underlying technology, tokenised deposits and stablecoins could also differ. Stablecoins typically operate on public, permissionless blockchains, which support global accessibility and composability. Multi-chain issuance and cross-chain bridging solutions enhance their interoperability across digital ecosystems. Tokenised deposits, in contrast, are generally deployed on bank specific private or hybrid distributed ledger platforms, reflecting the need for centralised governance, compliance, and know your customer controls (Maechler, 2025). While this design strengthens regulatory alignment and operational control, it may limit interoperability, particularly across banks.

At the same time, tokenised deposits retain the advantages of commercial bank money. They are embedded within the existing banking system and preserve the singleness of money, since interbank transfers ultimately settle in central bank money (Garratt and Shin, 2023). Stablecoins, by contrast, derive value from their integration within digital ecosystems, where programmability, availability across major blockchains, and cross-border usability reinforce adoption dynamics. Users may therefore hold both instruments simultaneously, with bank deposits functioning as a primary store of value and as on-ramp and off-ramp channels, while stablecoins operate as transactional or liquidity management tools within specific digital environments.

Major banks, including J.P. Morgan, Citi, and HSBC, have developed tokenised deposit solutions to streamline treasury operations, cross-border payments, and collateral management. J.P. Morgan's Kinexys platform, for example, has processed more than USD 1.5 trillion in cumulative transaction volume, namely, over USD 2 billion in daily tokenised deposit transfers for institutional payments, and is now operating with the JPM Deposit Token (Cambridge Centre for Alternative Finance, 2026). More recently, beyond large institutions' proprietary systems, also multi-bank networks designed to operate across institutions are emerging.<sup>12</sup> Such initiatives demonstrate that tokenised deposits can combine operational efficiency with regulatory compliance in ways that differ structurally from typical stablecoin arrangements.

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<sup>12</sup> For example, the recently launched [Cari Network](#) by five US regional banks or, in Europe, Germany's [Commercial Bank Money Token](#) initiative, or in the United Kingdom (UK), a collaborative industry pilot project to deliver the first UK live transactions of [tokenised sterling deposits](#), coordinated by UK Finance.

**Table 1.1**  
**Stablecoins versus tokenised deposits: similarities and differences**

Dimension	Stablecoins	Tokenised deposits (non-bearer)
<b>Issuer</b>	Non-bank private entities (and, in some cases, banks)	Regulated commercial banks
<b>Nature</b>	Private digital bearer <sup>13</sup> instrument	Digital commercial bank money
<b>Settlement asset</b>	Transfers settle on the ledger; no settlement in central bank money	Inter-bank transfers ultimately settle in central bank money
<b>Access requirement</b>	No bank account required	Bank account required
<b>Backing mechanism</b>	Fully backed by reserve assets (1:1)	Fractional reserve backing with access to central bank money
<b>Deposit protection</b>	No deposit guarantee	Covered by deposit guarantee schemes (within legal limits)
<b>Technology</b>	Blockchain/DLT with smart contracts	Blockchain/DLT with smart contracts
<b>Ledger type</b>	Typically public and permissionless	Typically permissioned or hybrid
<b>Programmability</b>	High and open-ended; DeFi-compatible	Controlled and compliance-driven
<b>Interoperability</b>	High; multi-chain availability and cross-chain solutions	Limited; siloed at bank level, but natively linked to fiat systems
<b>Typical use cases</b>	Crypto trading, cross-border payments	Domestic instant payments, business-to-business payments, treasury automation
<b>Regulatory framework</b>	Stablecoin, crypto asset regulation	Banking regulation
<b>Know your customer and traceability</b>	More difficult traceability	Full bank-based know your customer and traceability

Note: Comparison based on existing use cases.  
Source: Author

Looking ahead, the possibility that traditional banks could issue stablecoins themselves may strengthen these network effects. Given their established customer relationships and regulatory standing, banks may be better positioned to foster trust and acceptance of bank-issued stablecoins among retail users. In such a scenario, banks could offer a broader menu of digital monetary instruments – ranging from traditional deposits to tokenised deposits and stablecoins – allowing them to serve heterogeneous user needs within a unified institutional and regulatory framework.

Over time, regulatory evolution – particularly with respect to the potential remuneration of stablecoins and their access to central bank liquidity backstops – and the nature of stablecoin issuers could materially affect the relationship and intensify competitive pressures between these two forms of private money.

### Stablecoins and Eurodollars

US dollar-pegged stablecoins dominate the global stablecoin market. Out of total market capitalisation of some USD 308 billion, nearly 98% are pegged to the US dollar, although the vast majority of stablecoin transactions occur outside the US (Kumar, 2025). According to Auer et al. (2025), quarterly cross-border flows of USDC and USDT reached USD 400 billion in the first half of 2024, underscoring the global demand for digitised dollar liquidity.

This strong offshore appetite for dollar-denominated assets is especially evident in economies

<sup>13</sup> While used in this context for simplification, the classification of certain forms of digital money as bearer instruments remains however open to question. Traditionally, bearer instruments are associated with possession-based rights, often linked to physical control. While dematerialisation has already weakened this association, such as in the case of bearer securities held through intermediated systems, these arrangements typically rely on centralised record-keeping and layered ownership structures, which depart from a pure bearer model. In this light, digital money instruments that depend on registration or ledger-based validation mechanisms may align more closely with registered or account-based forms. Although some designs seek to replicate bearer-like features in a digital environment, significant legal and conceptual challenges would need to be addressed before such instruments can be fully characterised as bearer instruments.

with volatile exchange rates or high domestic inflation, where stablecoins provide an accessible and liquid store of value (Aldasoro et al., 2025). In this context, stablecoins can be viewed as the Eurodollars of the digital era, providing US dollar-linked liquidity outside the US banking system.

Mechanically, when a stablecoin issuer collects funds globally and invests them in US Treasury securities or deposits in onshore US banks, it effectively channels offshore dollar demand back into the US financial system. In doing so, stablecoins transform offshore dollar liquidity: what was once an off-chain claim on foreign banks in the traditional Eurodollar market becomes a tokenised claim on US assets, often Treasury securities. This process represents a re-intermediation of international dollar demand through the US, rather than through offshore banking channels. As a result, stablecoins act as digital substitutes for traditional Eurodollars, potentially reshaping the geography of global dollar funding.

From a functional perspective, US dollar-pegged stablecoins currently play a role similar to Eurodollars (Aldasoro et al., 2024); both serve as offshore extensions of the US dollar system, providing dollar-denominated liquidity beyond US regulatory boundaries. Yet, in quantitative terms, the two markets remain vastly different in scale. According to the Bank for International Settlements' Global Liquidity Indicators, total credit to non-bank borrowers outside the US (a proxy for the size of the Eurodollar market) reached USD 13.7 trillion at the end of Q1 2025. This stock, largely composed of bank loans and debt securities, dwarfs the USD 308 billion stablecoin market.

Nevertheless, as stablecoin regulation becomes more clearly defined across jurisdictions, adoption could broaden beyond retail users to include corporate and institutional investors seeking efficient, programmable, and globally transferable US dollar instruments. Under such conditions, stablecoins could gradually erode the base of traditional Eurodollars, or at least complement them by introducing a tokenised layer to the offshore dollar system, linking digital finance with the long-standing architecture of global dollar liquidity.

### **Stablecoins and credit cards**

A scenario attracting growing attention in the current debate on stablecoins, especially in Europe, concerns the potential extension of stablecoins to retail payments. The annual stablecoin transaction reached USD 27.7 trillion in 2024, surpassing that of traditional credit cards companies Visa and MasterCard combined over the same period.<sup>14</sup> In this regard, stablecoins could be seen as competitors to conventional non-cash payment services, including credit and debit cards as well as e-money payments. For reference, in 2024, total non-cash payments in the euro area were €116.0 trillion or USD 133 trillion based on ECB data,<sup>15</sup> dwarfing stablecoin-based global transactions.

However, looking forward, one potentially interesting case concerns the entry of large retailers and e-commerce platforms into stablecoin issuance. Global firms such as Walmart, Amazon, Expedia, JD.com, and Alibaba have all expressed interest in launching their own stablecoins. JD.com, for example, participated in the Hong Kong Monetary Authority's stablecoin sandbox in 2024 and announced plans to seek licences in multiple jurisdictions to expand its stablecoin-based payment and settlement services. Walmart filed several stablecoin-related patents between 2019–2023 for a US dollar-backed digital currency to be used within its retail ecosystem.

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<sup>14</sup> See [Stablecoins: How the GENIUS Act Strengthens US Geopolitical Dominance - Home](#).

<sup>15</sup> See [Payments statistics: first half of 2025](#).

This development builds on a well-established business precedent: retailer-issued credit cards, including both private-label and co-branded cards. Such cards have historically served as effective tools for customer retention and ecosystem expansion, primarily through cash-back programmes, loyalty points, and retailer-specific discounts. Retailers benefit financially by collecting interchange fees, revolving balance interest, and late-payment fees, which all help fund these loyalty programmes.

In the US, the scale of this market is substantial. By end Q2 2025, household credit cards accounted for roughly USD 1.2 trillion in outstanding balances, according to Federal Reserve Consumer Credit data. This figure includes both general purpose card payment and private-label card payment, which refer to the store branded credit cards for specific retailers. The latest Federal Reserve Payments Study shows that in 2022 private-label card payments, including credit cards, prepaid cards, and electronic benefits transfer cards, totalled USD 0.64 trillion in value. This underscores the significant role retailer-issued payment instruments already play in consumer finance.

Merchant processing costs provide an additional incentive for retailers to explore stablecoin issuance. Industry sources estimate that US retailers currently lose around 2%–3% of every transaction in credit-card processing fees, the average merchant ‘swipe fee’ reported by the National Retail Federation. However, when acting as co-brand partners in credit-card programmes, retailers also share in the interchange and interest revenues generated by those cards, particularly for transactions conducted outside their own platforms. This dual role, paying fees as merchants but earning fees as issuers, has historically shaped retailers’ incentives to internalise payments, an objective that could similarly motivate the issuance of retailer-backed stablecoins.

Retailer-issued stablecoins could replicate and extend the economics of retailer cards. By issuing their own digital tokens, retailers could earn float income on the reserves backing these stablecoins, investing customer funds in short-term, high-quality assets while users hold balances within their ecosystem. They could also collect transaction fees when their stablecoins are used beyond their own platforms or monetise on-chain transaction data to improve marketing and analytics. In doing so, they would deepen ecosystem lock-in, integrating payments, rewards, and commerce into a unified digital environment. To do a back-of-the-envelope estimation, assuming a transaction velocity of 60–120 times per year, consistent with observed turnover rates in existing fiat-backed stablecoins (Citigroup, 2025), this would correspond to a demand for USD 5–11 billion in stablecoins.

Empirical parallels can also be drawn from Asia’s ‘super-app’ ecosystems, which illustrate the scalability of such closed-loop digital payment systems – although these are not stablecoins per se. In China, Ant Group’s Alipay and Tencent’s WeChat Pay together handle around CNY 200 trillion in annual transaction volume. These platforms demonstrate how private digital payment instruments can achieve mass adoption when tightly integrated into e-commerce, social media, and everyday transactions, a trajectory that retailer-issued stablecoins could emulate in some other markets.

From a policy perspective, the entry of retailers into stablecoin issuance would blur the line between payment service providers and issuers of monetary instruments, raising questions around regulatory perimeters, financial stability, and consumer protection. At present, non-financial corporations in the EU are subject to significant regulatory constraints when engaging in bank-like or money-issuance activities, reflecting licensing requirements, activity-based regulation, and, in some cases, restrictions on the commingling of commercial and financial activities (see Chapter 3). From a market-function viewpoint, however, retailer stablecoins would appear as a natural digital evolution of existing loyalty and payment instruments, programmable, reward-generating, and potentially interoperable with broader

payment systems.

## Chapter conclusion

This chapter argues that stablecoins' relationship with other financial instruments, digital and traditional alike, depends critically on two factors: whether stablecoins offer distinct functional value to users, and whether their joint use with other instruments generates positive network effects. Applying this framework, the paper examines six key pairwise comparisons that feature prominently in policy debates and academic research, spanning CBDCs, cryptocurrencies, money market funds, bank deposits, Eurodollars, and retailer-issued payment instruments.

The analysis shows that these relationships are neither uniform nor static. In some cases, such as with CBDCs or cryptocurrencies, stablecoins are more likely to play a complementary role, while in others, most notably money market funds and bank deposits, the scope for competition or substitution depends on regulatory design, remuneration, and perceptions of safety, including access to central bank liquidity backstops. Jurisdictional choices already matter: some authorities have favoured CBDCs over stablecoins, while others have taken the opposite approach, shaping market outcomes accordingly.

Taken together, these findings underscore that the role of stablecoins in the monetary and financial system will evolve alongside their design features, as well as regulation and market structure. Whether stablecoins emerge as complements, competitors, or transitional instruments will hinge less on their technology alone than on regulatory choices and institutional arrangements. Moreover, stablecoin design is not uniform; their reserve asset quality, redemption and segregation policies, and prudential safeguards can differ. As such, close attention to regulatory requirements and the implementation developments remains essential for understanding how stablecoins may affect the financial landscape over time.

## **2. Stablecoins and financial stability: a reflection on risk transmission channels**

## Chapter introduction

This chapter examines the financial stability risks that stablecoins and their potential expansion may pose, both within jurisdictions and across national borders. Proponents view stablecoins as a significant wave of financial innovation: a practical application of tokenisation that may enhance payment efficiency, enable programmable transactions, and facilitate new forms of cross-border financial activity. Critics, by contrast, emphasise the risks arising from stablecoins' design features, their borderless nature, and the possibility that uneven or competing regulatory frameworks could enable regulatory arbitrage, with implications for financial stability, financial integrity and, in some jurisdictions, monetary sovereignty. In addition, particularly in jurisdictions without a well-developed legal regulatory framework, further risks relate to legal uncertainty around the classification and the legal and regulatory treatment of these instruments. These include uncertainties around the validity of transfers, the protection of holders from the insolvency of the issuer or custodian, rights to redemption at par, or claims over the reserves.<sup>16</sup> These uncertainties – mainly in private, financial, and tax law – arise from a combination of factors, including the impact of the use of new technology, such as DLT and smart contracts, and they are heightened in a cross-border context. If stablecoins become widely used, these uncertainties could lead to financial stability concerns.

Europe faces a distinctive configuration of stablecoin-related risks shaped by the structure of its financial system. The euro area remains predominantly bank-based, which heightens sensitivity to innovations that could affect bank funding models, payment intermediation, and balance-sheet resilience. Stablecoins may therefore challenge banks, not only through potential substitution away from retail deposits, but also by reshaping payment flows, settlement patterns, and fee income, particularly if their use were to expand beyond crypto-asset markets into broader economic activity. In addition, euro area sovereign bond markets differ from those of the US in terms of depth, fragmentation, and liquidity, all of which may influence how large-scale stablecoin issuance interacts with government securities markets, especially during periods of stress. Finally, the cross-border nature of stablecoins, most notably the global dominance of US dollar-denominated tokens, raises questions about round-the-clock capital mobility and the effectiveness of regulation in a context of heterogeneous global regulatory regimes.

At the same time, Europe's challenges differ fundamentally from those faced by many emerging market economies. The euro area benefits from strong institutional foundations, deep financial markets, and a longstanding capacity to intermediate large cross-border capital flows in euro and US dollars through the bank-based system at relatively low cost and high speed. These features mitigate some of the macro-financial vulnerabilities that stablecoins may exacerbate elsewhere. This assessment also underpins the ECB's approach to digital transformation: in Europe, as in other advanced economies with efficient payment systems, "stablecoins offer relatively limited use cases, largely confined to the crypto ecosystem and certain cross-border payment applications" (Montagner, 2026).

Against this backdrop, this chapter argues that the near-term threat posed by stablecoins to euro-area financial stability remains limited. Euro-denominated stablecoins are still small in scale, and the EU regulatory framework provides a comparatively robust perimeter around issuance, reserve management, and supervision. However, the longer-term implications for financial stability, particularly for the banking sector, depend critically on the scalability of stablecoins, which is itself shaped by the evolution of their use cases. Whether stablecoins

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<sup>16</sup> Initiatives such as the UNIDROIT Principles on Digital Assets and Private Law provide useful guidance on issues such as transfers and custody (see UNIDROIT (2023)).

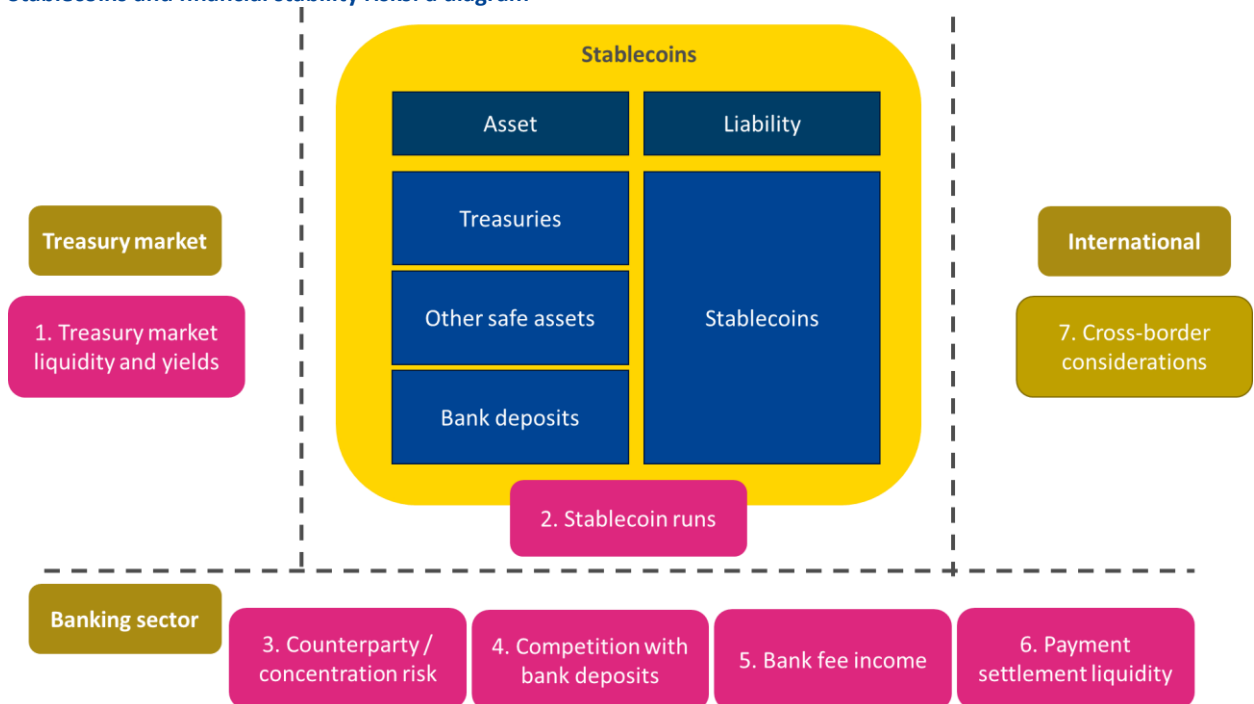
remain largely confined to on-chain trading, or expand meaningfully into retail payments, securities settlement, corporate treasury management, and cross-border transactions, will determine both the magnitude and the nature of their interaction with banks' funding structures, payment systems, and balance sheets.

This chapter assesses stablecoin-related financial stability risks in a structured manner. First, it identifies the key domestic transmission channels through which stablecoins may affect financial stability, with a particular focus on banking sector exposures. These include potential spillovers to government bond markets, run dynamics, reserve concentration and custody risks, deposit outflows, pressures on banks' fee and commission income, and payment system liquidity effects. Second, the chapter places particular emphasis on risks arising from the cross-border use of stablecoins, highlighting how the challenges facing Europe differ in nature from those confronting emerging market economies. Finally, the chapter concludes by establishing explicit links between these risk channels and different stablecoin use cases, demonstrating that systemic relevance depends not only on market size but also on how stablecoins are used and by whom. By adopting a use-case-based perspective, the chapter aims to distinguish between structural and persistent risks and those that are contingent on future adoption patterns – thereby informing more proportionate and forward-looking policy responses.

**How would stablecoins affect domestic financial markets?**

Stablecoins may affect financial stability primarily through three interconnected market segments: government treasury markets, the banking sector, and cross-border capital flows, as illustrated in Figure 2.1. The following sections focus on the key risk transmission channels operating through the treasury and banking sectors, which are most relevant for domestic financial stability.

Figure 2.1  
Stablecoins and financial stability risks: a diagram



Source: Author

### Stablecoins and the short-term government bond market

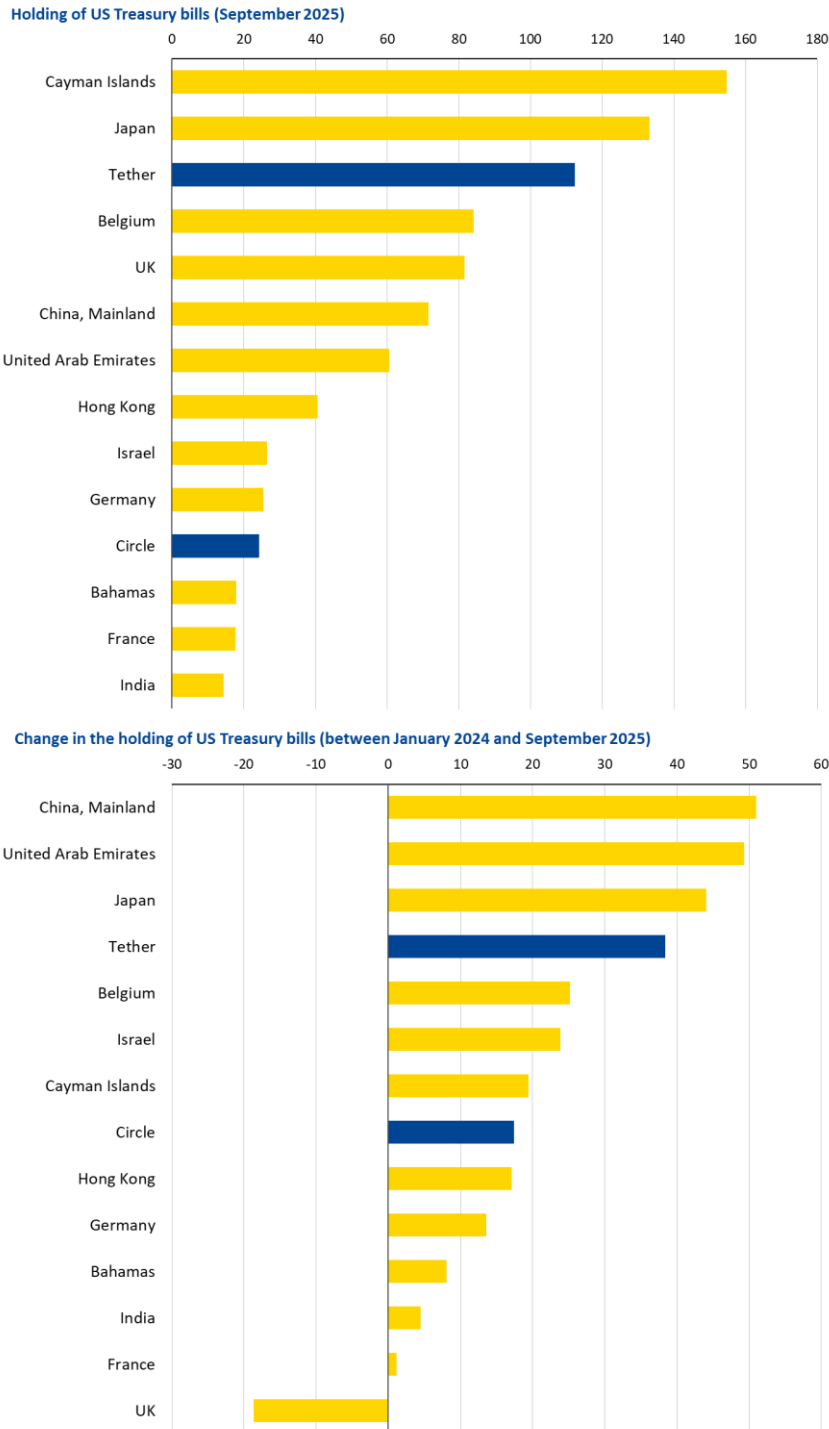
The first channel through which stablecoin issuance could affect traditional financial markets passes through various asset classes that stablecoins are required to hold as reserve assets. This concerns above all short-term government bond markets. As we can see from the examples of Circle's USDC and Tether's USDT, the two largest stablecoins by market capitalisation, 86% of Circle's and 72% of Tether's assets are backed by US Treasury bills (totalling USD 134 billion) and US Treasury repurchase agreements or repos (totalling USD 60 billion) as of end-September 2025.<sup>17</sup> As Figure 2.2 shows, Tether and Circle are also among the biggest holders of US Treasury bills with holdings on par with large sovereign states (top panel). The recent increase in Tether's and Circle's holding of US short-term government securities is even more spectacular. Tether increased its holding of US Treasury bills to back up USDT by USD 38 billion between January 2024 and September 2025.

The projection of a surge in stablecoin adoption could directly increase the demand for short-term government bonds and repos. This could in turn compress front-end yields, making the yield curve steeper. A bias towards short tenors would imply more competition for short-term funding, increased rollover risks, lower liquidity of longer tenors, etc. If massive government bill demand pushes bill yields below policy rates, the conventional monetary policy transmission channel could be disrupted. Currently, stablecoin issuers are only a small part of the US Treasury market, Circle's and Tether's holdings of US Treasury bills represent less than 2% of the USD 6.72 trillion US Treasury bill market and 0.5% of the USD 12 trillion repo market. Thus, the immediate impact on the US Treasury market is limited. But with global stablecoin markets expected to reach several trillion US dollars (Citi, 2025), the financial impact on the government bond market can only grow proportionally. Based on local projection empirical methods, Ahmed and Aldasoro (2026) show that a USD 3.5 billion in aggregate stablecoin inflows – equivalent to two standard deviation in their stablecoin flow sample – compresses the 3-month US Treasury bill yield by about 2.5 basis points within 10 days, and up to five basis points within 20 days, with only limited effects on longer tenors.

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<sup>17</sup> Data from auditors' reports available on USDT and USDC websites. The shares of US Treasury bills and US Treasury bill-backed repos in USDC and USDT reserves remain relatively stable throughout 2025.

**Figure 2.2**  
**Tether and Circle among the biggest and growing holders of US Treasury bills**  
 (in USD billion)



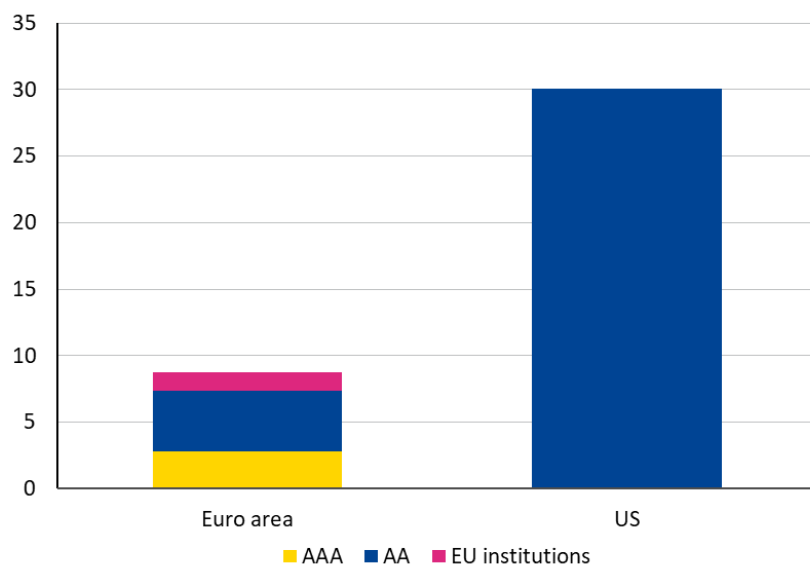
Sources: US Treasury International Capital System, USDC and USDT audit reports, author’s calculations.

The depth and liquidity of the domestic government bond market condition the potential expansion of stablecoin issuance and could mitigate or amplify the financial stability impact of stablecoins on government bond markets. Here, it is important to highlight three differences between the euro area and US safe asset markets (selected government marketable debt). To make a fair comparison, we focus on marketable debt securities issued in euros by euro area governments with a credit rating either broadly similar to or better than that of the US: Austria,

Belgium, Finland, France, Germany, Ireland, Luxembourg, and the Netherlands. For the euro area, we also include outstanding debt securities issued by the EU and European supranational institutions, namely the European Investment Bank, the European Financial Stability Facility, and the European Stability Mechanism. On this loose definition of ‘safe assets’, we see that the market for safe assets in Europe is close to USD 9 trillion as of December 2025 whereas the US’s outstanding treasury marketable debt amounts to USD 30 trillion (Figure 2.3). More importantly, the pool of European short-term safe assets is much smaller than in the US. If we focus on marketable securities issued by the selected euro area governments, securities with a maturity of less than a year – calculated as an average weighted by the size of the debt of the issuing governments – only represent 9% of the total in December 2024 (latest available Eurostat data).<sup>18</sup> In contrast, 22.4% of US government securities – or about USD 6.72 trillion – are Treasury bills (Figure 2.4), with a maturity between four weeks and 52 weeks. The immediate consequence of the much smaller pool of government safe assets in the euro area is that stablecoin issuers may need to tap other high-quality liquid assets, such as cash, limiting their profits. Finally, looking at the investor base of sovereign debt using the database from Arslanalp and Tsuda (2014), the euro area sovereign debt market may be less liquid than that of the US; the share of euro area government bond securities held by the public sector – mostly holdings by the Eurosystem – is close to twice that of the US (Figure 2.5). A large private investor base could enhance market liquidity and help transactions by stablecoin issuers to ensure the necessary redemption.

Figure 2.3

**Overall size of government safe assets in the US is three times larger than in the euro area, December 2025**  
(in USD trillion)

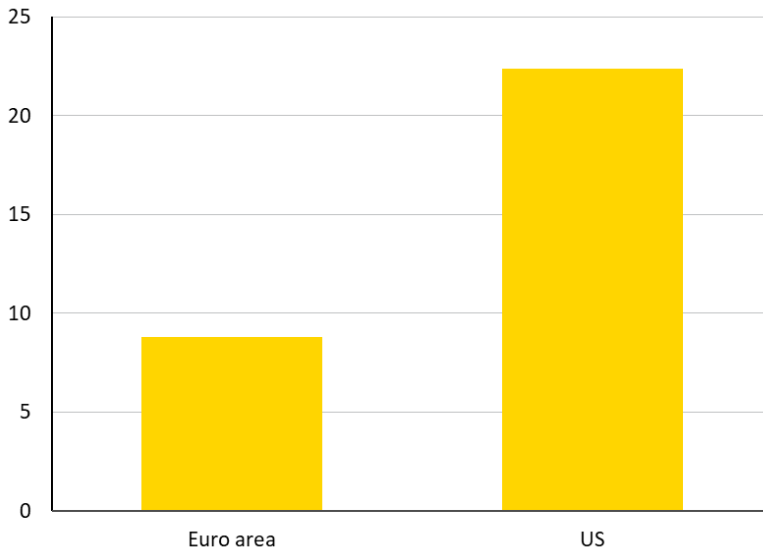


Notes: Euro area refers to a subsample comprising Austria, Belgium, Finland, France, Germany, Ireland, Luxembourg, and the Netherlands. The selection is based on credit rating to include sovereign governments rated similar or better than the US (currently rated in the category AA: S&P giving AA+ (since 2011), Fitch giving AA+ (since 2023), and Moody’s assigning Aa1 (since May 2025)). EU institutions include the EU itself and the European Investment Bank, the European Financial Stability Facility, and the European Stability Mechanism.

Sources: Bloomberg, Dallas Federal Reserve, Eurostat, SIFMA, Arslanalp and Tsuda (2014) updated, author’s calculation

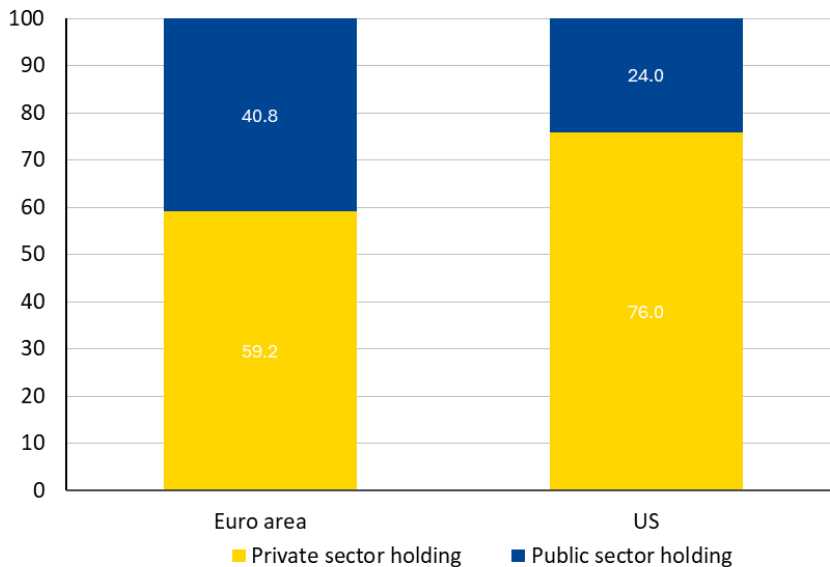
<sup>18</sup> See [Structure of government debt - Statistics Explained - Eurostat](#), accessed in December 2025.

**Figure 2.4**  
**The supply of short-term government safe asset is also smaller in the euro area, December 2024**  
 (in %)



Notes: Euro area refers to a subsample comprising Austria, Belgium, Finland, France, Germany, Ireland, Luxembourg, and the Netherlands. The selection is based on credit rating to include sovereign governments rated similar or better than the US (currently rated in the category AA: S&P giving AA+ (since 2011), Fitch giving AA+ (since 2023), and Moody's assigning Aa1 (since May 2025)).  
 Sources: Bloomberg, Fed of Dallas, Eurostat, SIFMA, author's calculations

**Figure 2.5**  
**A larger share of government bonds is held by the public sector in the euro area, Q2 2025**  
 (in %)



Notes: Euro area refers to a subsample comprising Austria, Belgium, Finland, France, Germany, Ireland, Luxembourg, and the Netherlands. The selection is based on credit rating to include sovereign governments rated similar or better than the US (currently rated in the category AA: S&P giving AA+ (since 2011), Fitch giving AA+ (since 2023), and Moody's assigning Aa1 (since May 2025)). By the definition of Arslanalp and Tsuda (2014), the public sector includes foreign and domestic central banks; the private sector includes both banks and nonbanks within a jurisdiction and overseas.  
 Sources: Bloomberg, Fed of Dallas, Eurostat, SIFMA, Arslanalp and Tsuda (2014) updated, author's calculations

**Stablecoin runs**

Most jurisdictions require stablecoins to be backed 100% by high-quality liquid assets, as further discussed in Chapter 3, making them resemble a form of 'narrow banking'. In fact, as Gorton

and Zhang (2023) argue, stablecoins can be analogised to the 19<sup>th</sup>-century wildcat banknotes of the US Free Banking Era. Circulating private money entails financial risks as it is not always accepted at par and its issuers are vulnerable to destabilising bank runs. The reserve-backing requirement can mitigate financial stability risks but cannot eliminate the risk of runs in the sense of Diamond and Dybvig (1983), even if a maturity mismatch is less pronounced for stablecoin issuers than for traditional banks.

Runs may be triggered either by fundamentally weak reserve backing or by a sudden shift in beliefs regarding the soundness or value of stablecoins' reserve assets. A prominent illustration is the collapse of the algorithmic stablecoin TerraUSD (UST) in May 2022. Confidence in UST eroded when market participants came to believe that the high yields offered through the Anchor Protocol, a DeFi savings and lending platform built on the Terra blockchain, were unsustainable. Crucially, UST was not backed by cash or safe assets; its stability relied entirely on an algorithmic mechanism allowing UST to be converted into its sister token, LUNA, at a notional value of USD 1. Once confidence broke, this mechanism failed, and the collapse of UST rapidly propagated to LUNA itself (See Ahmed et al., 2025, for the Terra-LUNA case and additional examples on stablecoin runs).

Even stablecoins that are fully backed by tangible, high-quality liquid assets, particularly short-term government marketable securities, are not immune to a run risk. Stablecoins operate on a 24/7 basis and typically have a more heterogeneous and geographically dispersed holder base than traditional bank deposits. Redemption demand can therefore be both large and difficult to predict. Moreover, coordination problems among stablecoin holders may be more acute: beliefs and trust can be rapidly shaped, and amplified, by news, rumours, or even misinformation circulating on social media. We can certainly note that the events for some major stablecoins to deviate from their par convertibility, are not rare, even though we have not seen large-scale runs.

As with banks, stablecoin redemptions are based on first-come, first-serve claims on reserve assets. Fear that others will redeem can make early withdrawal the dominant strategy, potentially forcing issuers to liquidate reserve assets at depressed prices. Such fire sales may impair the issuer's ability to maintain par convertibility and, at scale, could exert downward pressure on the prices of government securities used as reserves, transmitting stress to sovereign debt markets. Through a doom loop, other financial institutions holding the same high-quality assets on their balance sheets may also be adversely affected by these price declines. In this way, a liquidity run on stablecoins could propagate shocks to banks and the broader financial system through shared asset holdings.

To eliminate a run-prone equilibrium, Diamond and Dybvig emphasise the role of public backstops for solvent institutions facing liquidity stress. For banks, such backstops now largely exist, including deposit insurance to remove incentives for runs, central bank lender-of-last-resort facilities to supply liquidity during panics, and, where necessary, temporary suspensions of convertibility to neutralise first-mover advantages. The US authorities' decision in March 2023 to make all depositors at the then-failing Silicon Valley Bank whole, through coordinated action by the US Federal Deposit Insurance Corporation, Treasury Department, and Federal Reserve helped to contain contagion swiftly.

At present, comparable public backstops are generally not available for stablecoins. However, some jurisdictions – notably the UK – have begun to consider whether certain stablecoins should be granted access to central bank deposits or liquidity facilities, a development that could materially alter the run dynamics and financial stability implications of stablecoins going forward. Bindseil (2025) has also proposed regulatory responses to stablecoin runs, including central banks' lender of last resort role and deposit insurance-type protection.

### Counterparty and concentration risks

As illustrated in Figure 2.1, the second channel of risk transmission to financial stability operates through the management of stablecoins' backing assets. Because stablecoin issuers are required to hold reserve assets with banks or other regulated financial institutions, they inevitably rely on third-party counterparties, such as custodians, for the safekeeping and management of these reserves. When reserves are held in the form of cash deposits, there is a direct exposure to the creditworthiness of the banks holding the reserve asset deposits. This reliance introduces counterparty risk, as distress or failure at a custodian can directly impair the issuer's ability to meet redemption demands. Moreover, the pool of eligible custodians may be limited by regulation. For example, several jurisdictions, including the EU, require custodians to be established within their jurisdictions, which may constrain issuers' choice of custodians to diversify reserve holdings, for instance with foreign institutions. As a result, stablecoin issuers may face heightened concentration risk in the management of their backing assets, amplifying potential spillovers to the financial system.

Banks can simultaneously act as broker-dealers and custodians for stablecoin issuers, facilitating the trading and management of government marketable securities while also holding stablecoins' reserve assets. This dual role creates multiple channels of interdependence. Counterparty risk, combined with liquidity stress in government securities markets or sharp price adjustments, could trigger a doom loop between banks and stablecoin issuers through collateral fragility and reserve concentration.

The US regional banking crisis in March 2023 illustrates this risk transmission mechanism. While earlier episodes (such as the March 2020 'dash for cash') highlighted the vulnerability of the US Treasury market to liquidity shocks, the 2023 episode showed how bank stress can propagate directly to stablecoin issuers. The failure of Silicon Valley Bank, a deposit-taking institution, transmitted stress to Circle, the issuer of USDC, because Circle held approximately USD 3.3 billion, around 8% of its USD 40 billion-plus USDC reserves, at Silicon Valley Bank. This episode underscores how concentration risk in reserve custody can amplify financial stability risks, even when backing assets are nominally safe.

Both the EU's MiCAR and the US's GENIUS Act seek to address concentration risk in stablecoins, but they do so through markedly different regulatory philosophies.

The EU addresses potential concentration risks through a prudential-style framework embedded in MiCAR. Under MiCAR, stablecoin issuers, particularly issuers of asset-referenced tokens (ARTs) and e-money institutions issuing significant e-money tokens (EMTs), must ensure that reserve assets are low-risk, liquid, and adequately managed to mitigate concentration, credit, and custodial risks. While the Level 1 regulation sets out principle-based requirements rather than detailed diversification thresholds, it establishes a risk-based framework that is further specified in Level 2 measures. Requirements are further strengthened for "significant" stablecoins, which are subject to enhanced liquidity buffers, stress-testing obligations, and closer scrutiny of counterparty and custodial concentration. The European Banking Authority, in cooperation with the European Securities and Markets Authority and the ECB, is mandated to develop detailed regulatory technical standards to operationalise these safeguards. By treating concentration risk as a core source of financial instability, the EU aims to prevent correlated shocks and single-point-of-failure risks as stablecoins scale in size and cross-border usage. A potential drawback of this more prescriptive approach is that it may constrain the development of a sufficiently broad ecosystem of service providers, limiting local stablecoin issuance and, paradoxically, reducing issuers' ability to diversify risks across custodians and counterparties.

By contrast, the US approach addresses concentration risk primarily through asset eligibility

requirements and supervisory discretion rather than explicit diversification mandates. The GENIUS Act restricts reserve assets to high-quality, highly liquid instruments and enforces strict segregation and bankruptcy-remoteness of reserves, thereby limiting loss severity in the event of issuer distress. However, it does not impose statutory caps on exposures to individual issuers, custodians, or instruments. Instead, concentration risk is expected to be assessed on a case-by-case basis through ongoing safety-and-soundness supervision by federal or state regulators. This approach reflects a regulatory philosophy that prioritises asset quality and ex post resilience over ex ante portfolio constraints and may offer more flexibility as stablecoin markets evolve.

#### Impact on banks' deposits and fees and commissions income

Stablecoins and bank deposits, particularly retail deposits, perform similar functions for consumers as means of payment and settlement. This functional overlap creates the potential for rivalry, echoing earlier episodes of financial disintermediation, such as the capital outflows from bank deposits following the introduction of money market funds in the 1980s (see Chapter 1). Consistent with this view, Citi Institute (2025) bases part of its stablecoin growth projections on a gradual shift from bank deposits toward stablecoins. In its estimates, the reallocation of global short-term savings and current accounts held by households and firms outside the US and China ranges from USD 55 billion to USD 545 billion, out of a projected total of USD 54.5 trillion in savings and current deposits by 2030.

If stablecoins were adopted rapidly and at scale, eroding banks' retail deposit base, this could induce a structural shift in banks' funding composition. Even if stablecoin issuers were to hold a larger share of their reserves as bank deposits, the overall composition of bank funding could tilt away from relatively stable retail deposits toward more volatile wholesale funding and other market-based sources. Empirical evidence suggests that wholesale funding can be two to three times more volatile than retail deposits, particularly during periods of financial stress (Office of Financial Research, 2023; Coste, 2024; Wang, 2025). Such a shift would increase banks' funding volatility and costs, compress net interest margins, and heighten sensitivity to market conditions. More broadly, a sustained erosion of retail deposits could weaken banks' intermediation function by constraining their capacity to channel stable funding toward credit provision to the real economy (Altavilla et al., 2026).

At present, several safeguards limit the likelihood of large-scale and sudden deposit flight from banks into stablecoins. As we will discuss in Chapter 3, most jurisdictions require stablecoins to be non-interest-bearing instruments, reducing their attractiveness as substitutes for bank deposits. The EU has gone further by prohibiting stablecoin service providers, such as centralised exchanges, from offering financial incentives to stablecoin holders. Moreover, unlike bank deposits, stablecoins do not benefit from deposit insurance or routine access to central bank liquidity backstops, leaving holders more exposed to losses and liquidity risk.

Looking ahead, however, regulatory changes could materially alter this balance. Any future extension of central bank liquidity support or other public backstops to stablecoins could strengthen their competitiveness relative to bank deposits and reshape the dynamic interaction between the two. Such developments would have important implications for banks' funding resilience, their capacity to absorb shocks, and the broader transmission of risks to financial stability.

In addition, wider adoption of stablecoins could exert downward pressure on banks' fee and commission income across several payment-related segments, including retail payment account fees, card payment fees, wholesale and infrastructure-level fees, as well as cross-border and foreign exchange-related payment charges. While European banks have historically demonstrated an ability to adjust pricing and sustain fee income when needed (European

Banking Authority, 2025b), fee and commission income nonetheless remains a cornerstone of bank revenues, providing a relatively stable and recurring source of earnings over the economic cycle. Although its composition and importance vary across institutions depending on size and business model, fee and commission income accounts for close to 30% of total revenues for EU/European Economic Area banks and represents one of the more resilient components of bank profitability.

Over the past five years, EU/European Economic Area banks have reported steady growth in net fee income (fee income net of fee expenses), which increased by around 37% between June 2020 and June 2025. Against this backdrop, stablecoins, much like earlier waves of digital payment innovations, could offer both retail and corporate users more efficient and significantly lower-cost payment services, particularly for cross-border and FX-related transactions. If adopted at scale, such cost reductions could compress banks' fee margins and weaken profitability over time, even if they do not pose immediate risks to banks' solvency or liquidity.

#### Stablecoins and payment liquidity risk

Stablecoins function as bearer instruments, and their wider adoption for payments or for bridging off-chain finance with on-chain investment activity would tend to increase the demand for gross settlement of funds. At present, most stablecoin issuers do not provide fully instant redemption and often impose minimum thresholds or operational frictions for direct redemption with the issuer. As a result, settlement flows between stablecoins and the banking system remain relatively contained.

Looking ahead, however, this dynamic could change. As more stablecoin issuers move toward near-instant issuance and redemption models, like the Circle Mint process,<sup>19</sup> the settlement mechanics would increasingly resemble gross, rather than net, processing. Under such models, stablecoins are issued immediately upon receipt of fiat funds, and redemption requests are fulfilled once stablecoins are received, with a corresponding transfer of fiat money. Both legs of this process require stablecoin issuers to hold and actively manage commercial bank deposits, increasing the frequency and immediacy of payment flows between stablecoin ecosystems and the banking system (Lee, 2025).

As stablecoin usage expands for day-to-day payment purposes, this structure could lead to higher intraday payment volumes and volatility, as issuance and redemption flows occur continuously rather than being netted over time. In stress scenarios, elevated redemption demand could translate into large gross liquidity movements, transmitting payment-related liquidity shocks to banks and, indirectly, to government securities markets if issuers need to mobilise or liquidate reserve assets.

At present, however, the scale of stablecoins' on-/off-ramp activity remains small relative to the capacity of core payment infrastructures. In Europe, the US, and the UK, their real-time gross settlement system processes daily transactions in trillions of US dollars. For instance, in Europe, the real-time gross settlement system TARGET2 processed an average of around 422,000 payments per day in 2024, with a total daily value of approximately €1.8 trillion. Annual transaction volumes reached a new peak of over 107 million payments, driven primarily by customer transactions. Against this backdrop, current stablecoin-related settlement flows do not pose material challenges for real-time gross settlement liquidity management.

Nevertheless, continued growth in stablecoin adoption, particularly in retail payments and on- and off-ramping use cases, could incrementally increase gross settlement needs and create intraday liquidity demand peaks. Over time, this may raise operational and liquidity-

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<sup>19</sup> See [Overview - Circle Docs](#).

management challenges for banks and payment infrastructures, even if it does not threaten their functioning in the near term.

## A close-up on the cross-border issuance and use of stablecoins and the associated risks

International use of stablecoins is prominent in emerging market economies

It is a common view that cross-border operations are a predominant use case for stablecoins (Reuter, 2025; Auer et al., 2025). In fact, stablecoins perform three closely related but analytically distinct functions in cross-border settings: payment, settlement, and financial use.

First, stablecoins function as cross-border payment instruments. They are used to transfer value across jurisdictions in environments where traditional payment rails remain slow, costly, or inaccessible. By operating continuously on DLT platforms and settling in a common unit of account, most often the US dollar, stablecoins reduce reliance on correspondent banking networks and mitigate frictions related to time zones and multiple intermediaries. International remittances provide a particularly illustrative example. Despite ongoing efforts to improve efficiency, remittance costs remain elevated, especially when transfers are routed through banks. According to World Bank data, the global average cost of sending USD 200 was approximately 6.5% in 2025 – nearly USD 13 per transaction (World Bank, 2025). Stablecoins offer an alternative channel that can lower transaction costs and increase speed, particularly along corridors involving emerging market and developing economies where traditional financial access is limited.<sup>20</sup>

Second, stablecoins function as a settlement asset for cross-border transactions, offering a concrete application of DLT-based settlement infrastructure. They provide a neutral and programmable settlement layer that enables counterparties in different jurisdictions to achieve near-instantaneous and simultaneous payment-versus-payment settlement (Lee et al., 2022).

Third, stablecoins are increasingly used as financial instruments in international contexts. They serve as stores of value against high inflation or the volatility in crypto asset valuation, as liquidity management tools, and as collateral within DeFi ecosystems and other global financial activities. This financial use is closely linked to the credibility of stablecoins' promised par redemption against fiat currency, predominantly the US dollar, and to the composition of their reserve assets, which are largely invested in short-term US Treasury instruments.

The cross-border functions and use cases described above are particularly attractive for emerging market and developing economies. Using transaction-level blockchain data, Auer et al. (2025) identify Brazil, India, Russia, and Turkey as key nodes in global stablecoin networks, reflecting their central role in cross-border stablecoin flows. Complementary evidence is provided by TRM Labs, a blockchain analytics provider that publishes a country-level ranking of retail crypto adoption, including stablecoin use. According to TRM's 2025 ranking (January–July), the countries with the highest levels of retail crypto adoption are predominantly emerging market and developing economies. India ranks first globally, with Pakistan, the Philippines, Brazil, and Indonesia also in the top five. The US ranks second and was the only advanced economy among the top performers (Figure 2.6).

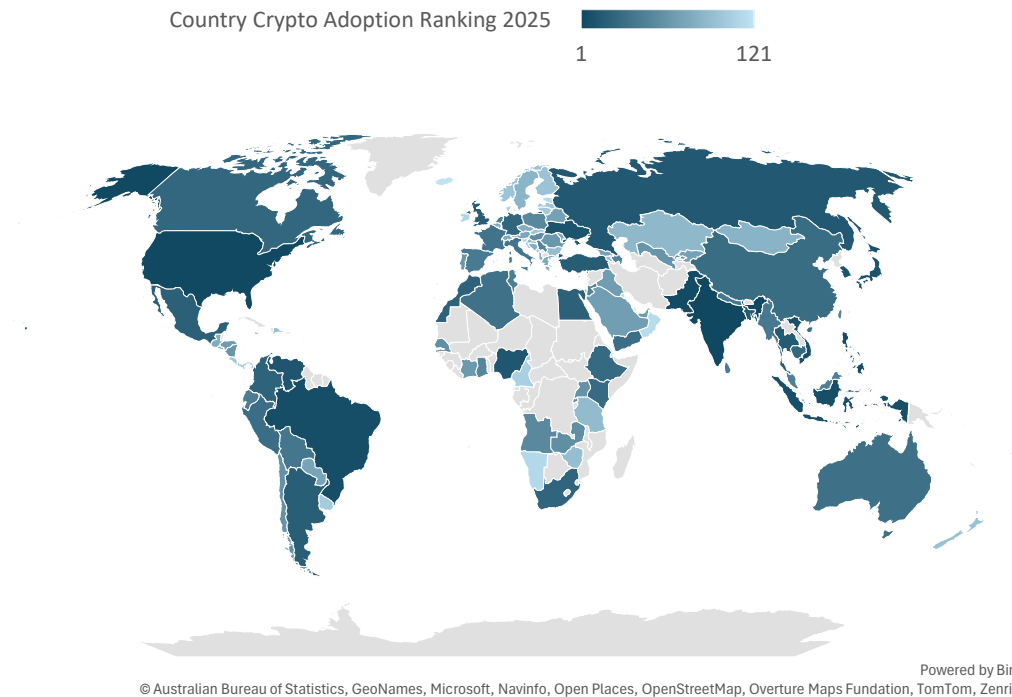
By contrast, the UK is the highest-ranked European country, in 17<sup>th</sup> place, followed by Germany (24<sup>th</sup>) and France (34<sup>th</sup>). This pattern highlights a clear regional divergence in the motivations underlying stablecoin use and underscores that widespread retail adoption is not primarily

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<sup>20</sup> As noted by Scotti (2025), however, critical components of the payment chain – such as 'last mile' delivery costs, on/off-ramp fees, and foreign exchange charges – should be taken into consideration in assessing the true financial benefits of stablecoin-based remittances.

driven by income levels or technological sophistication.

**Figure 2.6**  
**India and the US ranked highest in crypto adoption for retail use**



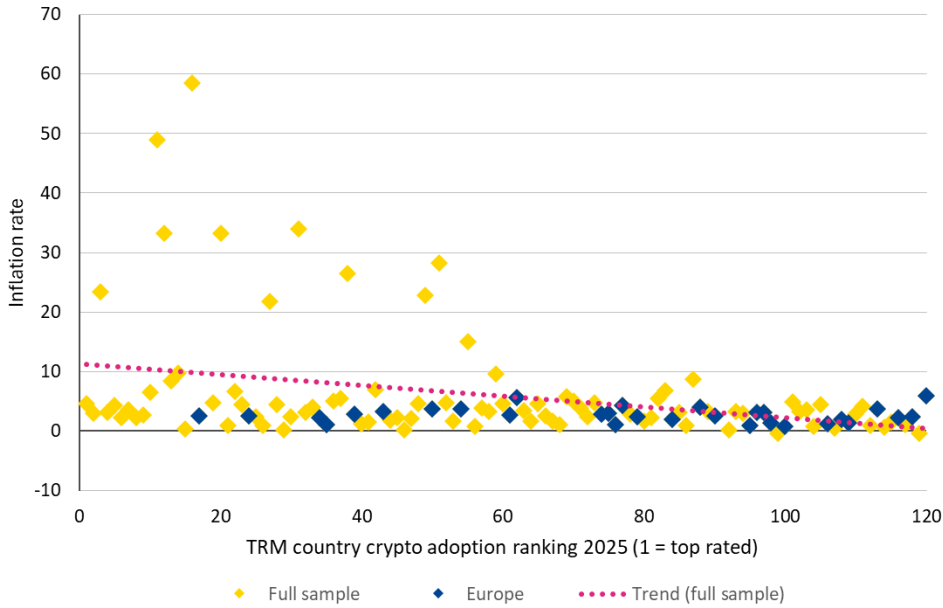
Sources: [2025 Crypto Adoption and Stablecoin Usage Report | TRM Labs](#) and the author's depiction

Contrasting the TRM adoption ranking with traditional macroeconomic and institutional indicators helps explain this divergence. As illustrated in Figures 2.7 and 2.8, countries with higher inflation rates and more restrictive capital account regimes tend to rank higher in crypto adoption. In these economies, stablecoins are often used to preserve purchasing power in the face of persistent inflation and to circumvent capital controls that limit access to foreign currency or cross-border payments. Similarly, countries affected by geopolitical conflict or financial sanctions, such as Ukraine (ranked 10<sup>th</sup>) and Russia (ranked 13<sup>th</sup>),<sup>21</sup> exhibit elevated crypto and stablecoin use, reflecting constraints on access to the formal financial system.

Remittance-dependent economies also feature prominently among high-adoption countries. The Philippines, ranked fourth, is a major remittance recipient and lies along corridors characterised by large transaction volumes and relatively high transfer costs. In such contexts, stablecoins can provide a more efficient channel for cross-border capital flows. However, widespread use of stablecoins for these purposes may also increase the risk of currency substitution and weaken domestic monetary policy transmission.

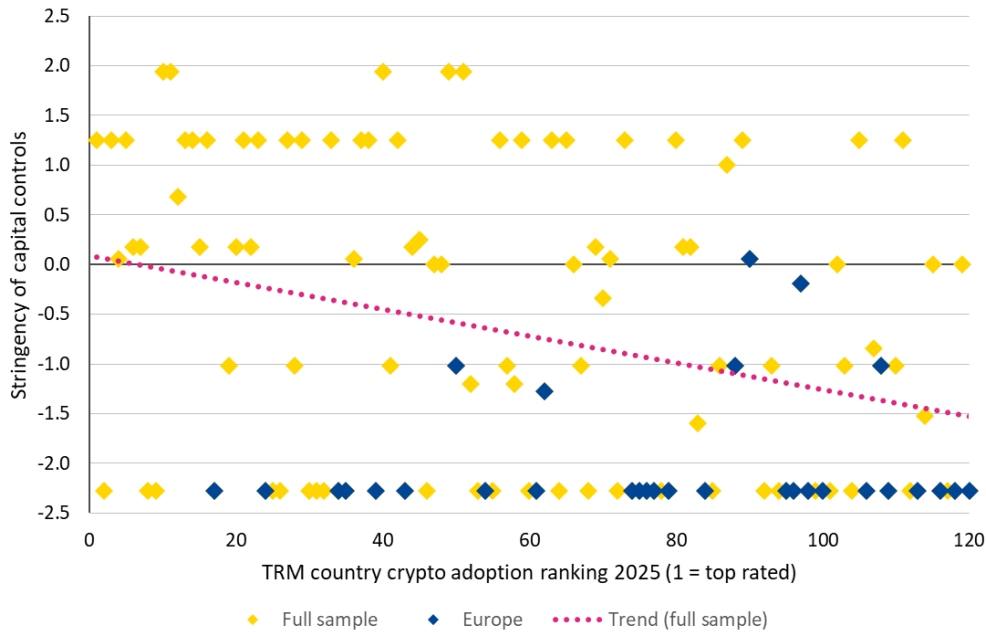
<sup>21</sup> Recent developments indicate a growing reliance by Russia on cryptocurrency to evade international sanctions. In this context, the Russian state-backed stablecoin A7A5 has emerged as a key instrument for financing operations that support the ongoing war of aggression.

**Figure 2.7**  
**Countries with higher inflation rates tend to have stronger retail crypto adoption**  
 (y-axis in %, x-axis in rank)



Notes: The sample contains 119 jurisdictions that TRM ranks for the retail use of crypto assets; Argentina and Zimbabwe are excluded because of their extremely high inflation rates. The y-axis measures inflation rate as of end 2024 using International Monetary Fund data. The x-axis indicates the retail use of crypto asset ranking by TRM as of July 2025, with 1 indicating the best ranked jurisdiction (India). Countries in the European Economic Area and the UK are marked in yellow. The dashed trend line applies to the full sample.  
 Sources: International Monetary Fund World Economic Outlook database, TRM, and the author's depiction

**Figure 2.8**  
**Countries having stringent capital controls tend to have stronger retail crypto adoption**  
 (y-axis in index, x-axis in rank)



Notes: The sample contains 119 jurisdictions that TRM ranks for the retail use of crypto assets; Argentina and Zimbabwe are excluded because of extremely inflation rates. The y-axis measures the degree of capital controls as of end-2023. It is the reversed Chinn-Ito index measuring capital account openness. The higher the index the more stringent capital controls. The x-axis indicates the retail use of crypto asset ranking by TRM as of July 2025, with 1 indicating the best ranked jurisdiction (India). Countries in the European Economic Area and the UK are marked in yellow. The dashed trend line applies to the full sample.  
 Sources: Chinn and Ito (2006), International Monetary Fund World Economic Outlook database, TRM, and the author's depiction

### Europe's concerns: prudential safeguards dilution and US dollar dominance

The European experience differs markedly from that of many emerging market and developing economies. EU Member States benefit from strong institutional frameworks, credible monetary policy anchored in price stability, and open capital accounts. The main drivers of retail stablecoin adoption observed in some emerging markets, such as inflation hedging, circumvention of capital controls, or substitution for weak domestic payment systems, are largely absent in the euro area. Net stablecoin holdings in Europe, amounting to USD 25 billion in 2024 (Reuter, 2025), therefore appear to be motivated primarily by financial and investment considerations rather than by payment necessity. These include the use of stablecoins as on-ramps to crypto asset markets, as collateral in DeFi applications, and as liquidity management instruments within globally integrated portfolios.

For Europe, the financial stability risks associated with the international use of stablecoins do not primarily arise from currency substitution or retail payment disruption. The euro area already operates highly efficient payment infrastructures. The Single Euro Payments Area Instant Credit Transfer scheme enables 24-hour, year-round transfers of euro-denominated funds across participating payment service providers within the Single Euro Payments Area, with execution typically completed within seconds.<sup>22</sup> Cross-currency transactions between the euro and US dollar are also supported by deep and liquid financial markets. According to the Bank for International Settlements (2025), Europe is the largest holder of cross-border US dollar bonds, and private European investors increased their holdings of US bonds by approximately USD 1.3 trillion between 2015 and 2023. European banks play a central role in providing US dollar funding and hedging instruments to euro area corporates and non-bank financial institutions (ECB, 2025). In this context, the euro area is already deeply integrated into global dollar markets through traditional financial channels.

Europe's concerns therefore stem less from payment inefficiencies and more from structural and prudential considerations amid global regulatory discrepancies (ECB, 2025d). A central issue is the global dominance of US dollar-denominated stablecoins and the potential expansion of large US-based or US-linked issuers into the European market. This debate has crystallised around the concept of multi-issuance. Multi-issuance refers to a model in which fungible stablecoins are issued by related legal entities across several jurisdictions, allowing a global issuer to comply formally with local regulatory requirements while maintaining a single global token.

From an EU prudential perspective, multi-issuance raises concerns about the effective application of MiCAR safeguards. If reserves backing identical tokens are held in multiple jurisdictions and subject to different supervisory regimes, reserve fragmentation may occur. In stress scenarios, there is no fully developed cross-border legal framework that guarantees the swift transfer of reserve assets across jurisdictions to meet redemption pressures where they arise. This creates uncertainty regarding the enforceability and timeliness of redemption rights and may channel sudden and large redemption demand to the EU given MiCAR's strong holder protection requirements and the prohibition of redemption fees (see Chapter 3, as well as ECB, 2025a, and European Systemic Risk Board, 2025a). For European authorities, the issue is therefore not merely formal compliance but the operational integrity of reserve backing under stress.

Beyond prudential design, the debate also reflects broader strategic concerns. Multi-issuance may entrench the position of incumbent global stablecoin providers and reinforce US dollar dominance within digital finance. Given network effects in token adoption, early movers

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<sup>22</sup> See <https://www.europeanpaymentscouncil.eu/what-we-do/sepa-instant-credit-transfer>.

operating at global scale may benefit disproportionately from liquidity concentration, technological familiarity, and ecosystem integration. For EU institutions, this raises questions not only about financial stability but also about Europe's strategic autonomy in payments and digital finance infrastructure.

Regulatory clarification is ongoing. The European Commission is expected to issue guidance in 2026 on the treatment of multi-issuance under MiCAR, ahead of a broader MiCAR review scheduled for 2027. Academic and market proposals have sought to address reserve fragmentation within the existing framework. Arnal (2025) argues that total reserves could be aggregated across jurisdictions to ensure adequate backing for all holders. Arnal and Osborne (2026) further propose that reserves held in a given jurisdiction should at all times cover the stablecoins held by residents in that jurisdiction, rather than only the amounts locally issued, supported by frequent monitoring and reallocation mechanisms. Klooster et al. (2025) highlight that MiCAR already foresees powers for the European Banking Authority and the ECB to restrict issuance or trading of foreign currency-denominated stablecoins where monetary sovereignty risks arise.

Europe's concern about stablecoins' multi issuance schemes, therefore, is not that stablecoins will immediately displace the euro in domestic payments, but that the international structure of stablecoin issuance may weaken the effective application of prudential safeguards and reinforce external currency dominance within emerging digital financial infrastructures.

## Chapter conclusion

We place the financial risk analysis in the context of recent and prospective developments in the stablecoin market. Some financial stability risks are inherently commensurate with the scale of stablecoin activity, most notably spillovers to government bond markets and the risk of runs, which are embedded in the design of stablecoins themselves. As a result, the systemic relevance of these risks will depend critically on the future size of the stablecoin market. While stablecoin usage is widely expected to expand, there remains substantial uncertainty surrounding the pace and ultimate scale of this growth.

Beyond overall market size, the composition of stablecoin use cases and their future expansion are critical for understanding risk transmission to financial stability. Table 2.1 highlights how financial stability risks associated with stablecoins differ materially across use cases, underscoring that systemic relevance depends not only on scale but also on how stablecoins are used. Three risk channels, spillovers to government treasury markets, the risk of stablecoin runs, and reserve concentration and custody risk are intrinsic to the design of fiat-backed stablecoins and therefore cut across all use cases. These risks arise from the need to hold large volumes of high-quality liquid assets, the promise of par convertibility, and reliance on a limited set of custodians and counterparties; these would intensify mechanically as stablecoin issuance scales up, irrespective of the specific application.

Beyond these design-level risks, the table illustrates that use-case-specific expansion activates distinct transmission channels. In particular, the scaling-up of stablecoins for retail payments engages multiple banking-sector risks simultaneously. Wider household adoption could erode banks' retail deposit base, altering the composition and stability of bank funding. Even if households were to hold stablecoins alongside bank deposits rather than fully substituting for them, increased reliance on stablecoins for everyday transactions would likely raise the volume and frequency of on- and off-ramping activity. This, in turn, could increase intraday liquidity needs and settlement volatility in payment systems, heightening operational and liquidity management challenges for banks. At the same time, banks' fees and commissions income could face additional pressures when retail users shift to stablecoin-based payments and banks

may also cut fees to stay competitive.

The table further suggests that on- and off-ramping functions serve as a critical nexus for risk transmission, particularly with respect to payment liquidity risk and deposit dynamics. Because these activities directly link stablecoin ecosystems to the banking system, they can amplify stress during periods of heightened redemption demand. This could be the case when stablecoin issuers more widely adopt instant redemption processes.

Table 2.1

**Stablecoin use cases and risk channels**

Risk channel use case	On-chain trading	On-/off-ramping	Retail payment	Corporate treasury management	FX (including remittances)
Government treasury market	●	●	●	●	●
Stablecoin runs	●	●	●	●	●
Reserve concentration/custody risk	●	●	●	●	●
Bank deposit flight	—	●	●	○	○
Bank fee income	—	—	●	●	○
Payment liquidity risk	—	●	●	○	○
FX risk	—	—	—	—	●
Reserve fragmentation	—	—	—	—	●

Note: ● = direct/first-order risk direct effect, ○ = indirect/second-order risk, and — = not material.

Source: Author

By contrast, corporate treasury management and FX-related use cases, including remittances, primarily transmit risks through profitability and market channels rather than through immediate funding stress. These use cases have more limited direct implications for bank deposits but may exert sustained pressure on banks' fee income from payments and foreign exchange services and, in the case of FX usage, raise risks of currency substitution and cross-border spillovers. While such effects are unlikely to pose acute solvency risks in the near term, they could weaken banks' business models and resilience over time, if adoption becomes widespread.

Taken together, the analysis underscores that the financial stability implications of stablecoins depend not only on their aggregate market size, but also on the future trajectory of market development and the relative expansion across different use cases. While some risks are inherent and unavoidable as the use of stablecoins grows, others are highly contingent on whether stablecoins are adopted primarily for trading, retail payments, treasury management, or cross-border transactions. This highlights the importance of a forward-looking, use-case-based approach to risk assessment and suggests that proportional, activity-based regulatory and supervisory responses may be more effective than uniform constraints applied across all forms of stablecoin usage.

### **3. Europe in the evolving global stablecoin regulatory landscape**

## Chapter introduction

The previous two chapters have shown that stablecoins interact in complex ways with existing monetary and financial instruments and may generate material risks to financial stability. At the same time, their use cases and potential welfare gains for the EU remain uncertain and uneven across jurisdictions. Against this backdrop, regulatory design becomes a central determinant of how stablecoin markets evolve and how risks are contained.

This chapter examines the position of the EU within the rapidly evolving global landscape of stablecoin regulation. It analyses the provisions of MiCAR in addressing financial stability, monetary, and policy challenges, and evaluates how the EU framework compares with recent regulatory initiatives in other major jurisdictions.

Stablecoin regulation sits at the intersection of banking law and financial market law. It combines elements of prudential supervision, reserve asset management, systemic risk oversight, and conduct regulation, while also interfacing with anti-money laundering rules, consumer protection, and sanctions frameworks.<sup>23</sup> The EU was among the first jurisdictions to establish a comprehensive legal framework for crypto assets through the adoption of MiCAR, which entered into force on 29 June 2023. MiCAR regulates crypto assets broadly and establishes detailed requirements for the issuance, reserve management, governance, and supervision of stablecoins, as well as for crypto asset service providers.<sup>24</sup>

Within MiCAR, stablecoins are classified as either e-money tokens (EMTs), pegged to a single fiat currency, or asset-referenced tokens (ARTs), referencing a basket or multiple assets. The regulation imposes significant obligations on issuers regarding capital, reserve composition, redemption rights, transparency, and supervision. MiCAR also regulates the activity of crypto asset service providers (CASPs), a distinctive feature in comparison with other jurisdictions.

Since the adoption of MiCAR, other major jurisdictions have introduced or finalised their own stablecoin frameworks. In particular, the US enacted the GENIUS Act<sup>25</sup> in 2025, Hong Kong adopted its Stablecoin Ordinance<sup>26</sup> in the same year, and the UK<sup>27</sup> is developing a dedicated framework for systemic stablecoins. These developments provide a timely opportunity to reassess the EU's regulatory stance in a comparative perspective.

This chapter makes three main contributions. First, it provides a structured legal and policy comparison of MiCAR with the US, Hong Kong, and the UK, focusing on five core dimensions: strategic objectives and policy intent; stabilisation and redemption mechanisms; prudential and systemic risk safeguards; technological infrastructure; and cross-border treatment. The choice of jurisdictions reflects our intention to compare the EU framework with the latest regulatory

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<sup>23</sup> This paper focuses on selected core regulatory profiles, without any ambition to be exhaustive on all these domains.

<sup>24</sup> Both the comparative analysis in this Chapter and the considerations in the next rely on important contributions in legal scholarship, even where not cited individually. A vast body of literature on MiCAR exists, some analyse in great detail its provisions (see, among others, Zetzsche and Woxholth, 2024; Annunziata, 2023; Haentjens et al., 2025; Maume, 2023); commenting critically on its stringent standards (for instance, Lehmann, 2024); putting it into the context of the US 'cryptomercantilist' approach (e.g. Klooster et al., 2025); and exploring specific profiles surrounding its application, such as multi-issuance schemes (e.g. Portes, 2025; Zetzsche, 2025), as well as areas currently outside of its scope (e.g. Annunziata, 2025; Zetzsche et al., 2023).

<sup>25</sup> Guiding and Establishing National Innovation for US Stablecoins Act of 2025, S. 1582, 119<sup>th</sup> Cong. (2025)

<sup>26</sup> Stablecoins Ordinance (Cap. 656), effective 1 August 2025.

<sup>27</sup> In particular, UK regulatory measures include a Financial Conduct Authority Consultation Paper CP25/14 (July 2025), which outlines rules for issuing "qualifying stablecoins" (fiat-referenced, 1:1 pegged crypto-assets backed by high-quality assets). This complements the Bank of England's parallel proposals for systemic stablecoins (November 2025 consultation) and HM Treasury's draft legislation (December 2025), with the full regime expected by October 2027. For the purposes of this paper, we consider in particular Bank of England (2025), 'Proposed regulatory regime for sterling-denominated systemic stablecoins', Consultation Paper, November 2025.

development, as well as important prospective regulations, offering geographical and market diversities.<sup>28</sup> Second, it evaluates MiCAR's stringency, designed to enhance financial stability, while also considering implications for market competitiveness and innovation. Third, it identifies areas where regulatory divergence may create cross-border spillovers, competitive pressures, or challenges for supervisory coordination.

The analysis builds on the growing literature examining recent stablecoin legislation, including work published after the adoption of the GENIUS Act (e.g. Klooster et al., 2025; AMRO, 2025; Adrian, 2025), but goes beyond descriptive comparison by assessing the implications of regulatory divergence for the EU's financial stability, monetary sovereignty, and strategic autonomy.

The chapter shows that MiCAR sets a comparatively high regulatory bar for stablecoin issuers and crypto asset service providers operating in the EU. Its architecture reflects a deliberate policy choice to prioritise market integrity, investor protection, and the containment of systemic risks over rapid market expansion. This stance is aligned with the principles advanced by international standard setting bodies such as the Financial Stability Board and IOSCO (Financial Stability Board, 2025a; IOSCO, 2025a). At the same time, differences in calibration and institutional design across jurisdictions raise questions about competitive dynamics, cross-border issuance models, and the long-term positioning of the EU within the global digital finance ecosystem.

### Strategic objectives, policy intent, and regulatory scope

Firstly, when comparing these regulatory regimes, one may note that all the jurisdictions in the sample aim to regulate stablecoins with the goal of safeguarding financial stability and the consumer, while also enabling innovation and enhancing their competitiveness in the crypto asset space. The US is the only jurisdiction that, as an additional driver, intends explicitly to rely on stablecoins to support demand for its debt and to enhance the global role of its currency.<sup>29</sup>

Secondly, at the strategic level, it is also important to understand how different jurisdictions view CBDCs, which provides a broad context for stablecoin regulations. The current plans of each jurisdiction in respect of CBDCs are not necessarily aligned. The US, for example, encourages private stablecoin initiatives while explicitly halting work on retail CBDCs, pending full legislation.<sup>30</sup>

The EU is advancing its work on both wholesale and retail CBDCs. The development of the retail digital euro depends on relevant regulation being passed in 2026; the wholesale CBDC relies on two projects, Pontes and Appia, focusing respectively on short-term and long-term solutions.<sup>31</sup>

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<sup>28</sup> The choice of Hong Kong instead of other competitive Asian jurisdictions (Singapore or Japan) reflects an intention to explore a leading jurisdiction in regulatory innovation and market development which is typically viewed as the bridge between mainland China and international capital markets.

<sup>29</sup> See [Statement from US Secretary of the Treasury Scott Bessent on Enactment of the GENIUS Act | US Department of the Treasury](#).

<sup>30</sup> The US Anti-CBDC Surveillance State Act was passed by the House on July 17, 2025. If passed by the Senate, the law would prohibit the Federal Reserve from issuing, testing, or developing a CBDC. Additionally, the White House has issued Executive Order 14178 declaring that the US will "tak[e] measures to protect Americans from the risks of [CBDCs] ... by prohibiting the establishment, issuance, circulation, and use of a CBDC within the jurisdiction of the United States." It is unclear whether reference to a CBDC "widely available to the general public" would prevent work on wholesale CBDCs. The Federal Reserve is continuing to investigate reserves tokenisation in the context of its participation to the Bank for International Settlements' Project Agora (see [Project Agora: exploring tokenisation of cross-border payments](#)). Differences between a wholesale CBDC and tokenized reserves are explained in Kunaratkul et al. (2025).

<sup>31</sup> In July 2025, the ECB's Governing Council approved a plan that will enable settling DLT transactions using central bank money. See [ECB commits to distributed ledger technology settlement plans with dual-track strategy](#).

Hong Kong is prioritising the development of a wholesale CBDC and considering a retail CBDC for a later stage. In the UK, the Bank of England and HM Treasury are considering a digital pound as a complement to cash and deposits, aiming to support innovation and payment resilience. The initiative is in a design phase and is expected to run through 2026, focusing on technical development, privacy safeguards, and stakeholder engagement.

Overall, the full operational and regulatory deployment of CBDCs remains developmental, while stablecoin regulations are either already in place or in a more advanced phase.

In terms of regulation scope, all these jurisdictions focus on stablecoins as a potential private means of payment and settlement and have enacted or are advancing regulations prescribing requirements for stablecoins issuers, in particular in respect of fiat-backed stablecoins, i.e. pegged 1:1 to a fiat currency.<sup>32</sup> Algorithm-based stablecoins<sup>33</sup> are generally left out of the scope of the current regulations.

The licence regimes are not identical, yet they aim to ensure that prospective issuers of fiat-backed stablecoins satisfy high standards. The EU restricts EMT issuance to credit institutions and electronic money institutions. Other jurisdictions allow non-bank stablecoin issuers under predefined conditions. The US requires unanimous approval from the Stablecoin Certification Review Committee. Hong Kong requires a minimum paid-up share capital of HKD 25 million and for overseas non-bank institutions to establish a local subsidiary.

As of January 2026, 18 EMT issuers have been authorised under MiCAR, of which only two have done so under their banking licence.<sup>34</sup> Considering the early stage of the legislation in the other jurisdictions, no licensed stablecoin issuer data is available for the US, Hong Kong, or the UK.

### A close-up on stablecoins' stabilisation and redemption mechanics

In line with Financial Stability Board and IOSCO recommendations, all four jurisdictions put a strong focus on the reserve-backing stabilisation mechanism to ensure price stability and convertibility. Reserves are generally off-chain assets, not represented by tokens on a blockchain. The US and Hong Kong may also allow on-chain tokenised equivalents of off-chain assets as reserves. The reserve assets are usually properly segregated from the issuer's estate, subject to high liquidity requirements in terms of composition as well as reporting/disclosure. To ring-fence the reserves' assets from issuers' insolvency risks and to protect the right of the holders to redemption, all these jurisdictions mandate – through different means – segregation from the issuer estate.<sup>35</sup> The US GENIUS Act also introduces a super-priority for holders in insolvency proceedings, whose effects have yet to be tested. Custody of reserve assets tends to be local, with the US also allowing offshore custody.

Table 3.1 provides an overview of the different treatments of these stabilisation and redemption mechanics across the jurisdictions examined.

<sup>32</sup> These are classified, respectively, as “EMTs” in the EU, “payment stablecoins” in the US, “specified stablecoins” in Hong Kong, and “qualifying stablecoins” in the UK. The focus of this paper is on this form of stablecoins.

<sup>33</sup> These are algorithm-based by design and rely on smart contracts, supply expansion/contraction mechanisms, or rebasing protocols to maintain their peg without holding reserves or collateral. These models offer capital efficiency and innovation but are prone to de-pegging during stress, as seen in UST's 2022 failure.

<sup>34</sup> See the list of EMT issuers from the European Securities and Markets Authority: <https://www.esma.europa.eu/sites/default/files/2024-12/EMTWP.csv>.

<sup>35</sup> The EU under MiCAR, however, allows credit institutions to issue “balance sheet backed” stablecoins. An example is the ODDO BHF's EUROD case, where: “The funds received in exchange for the issuance of EUROD are recorded on the balance sheet of ODDO BHF and form part of the Bank's general assets.” See [EUROD Stablecoin - ODDO BHF](#). These EMTs are covered neither by investor compensation schemes under Directive 97/9/EC nor by deposit guarantee schemes under Directive 2014/49/EU.

**Table 3.1**  
**Stablecoins' stabilisation and redemption mechanics**

	EU	US	Hong Kong	UK
	<b>Reserve requirements</b>			
<b>Eligible assets</b>	<ul style="list-style-type: none"> <li>• same-currency highly liquid financial instruments</li> <li>• ≥30% deposits at EU credit institutions (≥60% + diversification if significant)</li> <li>• no rehypothecation</li> <li>• banks exempt from mix, use Capital Requirements Regulation/Capital Requirements Directive instead</li> </ul>	<ul style="list-style-type: none"> <li>• USD cash/Fed notes</li> <li>• Federal Deposit Insurance Corporation insured deposits</li> <li>• T-bills ≤93 days</li> <li>• Treasury repos ≤7 days</li> <li>• government MMMFs</li> <li>• limited rehypothecation<sup>36</sup></li> </ul>	<ul style="list-style-type: none"> <li>• cash</li> <li>• bank deposits ≤3 months</li> <li>• ≤1-year government/central bank/public-sector debt (0% risk weight)</li> <li>• overnight repos/funds backed by above</li> <li>• no rehypothecation except for redemption liquidity needs</li> </ul>	<p><b>Systemic stablecoins (Bank of England):<sup>37</sup></b></p> <ul style="list-style-type: none"> <li>• ≥40% Bank of England cash deposits</li> <li>• ≤60% short-term UK government debt</li> </ul> <p><b>Non-systemic:</b></p> <ul style="list-style-type: none"> <li>• ≥60% ≤90-day UK/European Economic Area government securities.</li> <li>• ≤40% authorised bank deposits</li> <li>• ≥5% on-demand deposits</li> </ul> <p>no rehypothecation except for redemption liquidity needs</p>
<b>Segregation/custody</b>	Operational/legal segregation from issuer's estate, held with EU credit institutions	Operational/legal segregation with qualified custodians  Offshore custody allowed	Segregation by trust arrangements  Local custody unless specifically approved by the Hong Kong Monetary Authority	Segregation by trust arrangements  Local custody for GBP systemic stablecoins
<b>Transparency</b>	Periodic reporting of reserve adequacy  Exact frequency or format may depend on implementing technical rules	Monthly public disclosures, independent third-party examinations, annual audited financial statements for large issuers	Frequent reporting (public/internal)	For systemic stablecoins, regulator-only reserves reporting  For non-systemic, public reporting, ongoing disclosure for traded stablecoins

Source: Authors

All jurisdictions require stablecoin issuers to hold high quality liquid assets to back stablecoin issuance, often denominated in the reference currency of the stablecoin to mitigate foreign exchange risk. When a stablecoin is created in exchange for a fixed amount of fiat money, it typically gives rise to a claim of a stablecoin holder most commonly against the issuer.<sup>38</sup> The issuer is required to invest the proceeds in predetermined reserve assets, such as cash or government bills. The actual eligible assets do differ across the jurisdictions considered. The EU requires at least 30% of reserves be deposited at EU banks, with a stricter requirement of at

<sup>36</sup> Except for limited purposes indicated in the GENIUS Act, such as satisfying margin or use of custody obligations, or to create liquidity to meet redemptions.

<sup>37</sup> At launch: up to 95% government debt, 5% cash.

<sup>38</sup> Some jurisdictions, including those examined in this chapter, provide for additional protections beyond a purely contractual claim, such as statutory rights or claims in relation to the reserve assets. These may take different forms, including trust arrangements or priority rights over other creditors.

least 60% for significant issuers.<sup>39</sup> The UK is the only jurisdiction to consider requiring a certain amount of reserves to be held as central bank deposits with zero remuneration for systemic stablecoins, with a view to guarantee immediate liquidity for redemptions during normal and stress conditions. Hong Kong and the US mainly list eligible assets without prescribing the precise reserve composition.

Reserve composition requirements can directly influence stablecoin market expansion through the availability of eligible reserve assets and the commercial viability of the business model. Stablecoin issuers typically generate revenue from the interest earned on reserve assets, and to a lesser extent from fees associated with minting and redemption activity (Jhanji et al., 2025; Dionysopoulos et al., 2025). The level and structure of permissible reserve assets therefore have a direct bearing on issuer profitability and incentives to scale. Of course, when stablecoin issuers are directly engaged in deploying stablecoins as collateral in DeFi applications or in lending and borrowing arrangements, additional yields may be generated within those ecosystems.

Figure 3.1 compares reserve composition requirements across the four jurisdictions and provides an indicative estimate of the yields associated with different reserve portfolios. US dollar-denominated stablecoin issuers may benefit from relatively higher yields on short-term US government securities compared to equivalent instruments in euro or other currencies, creating a revenue advantage under otherwise similar reserve constraints. Differences in reserve eligibility rules may further affect risk taking incentives and portfolio allocation decisions. USDT, for instance, holds reserves in corporate bonds, secured loans, bitcoin, gold, and other assets that may yield higher returns or contribute to significant valuations.<sup>40</sup>

All the jurisdictions prohibit rehypothecation of reserve assets, with exceptions allowed mainly for liquidity management reasons.<sup>41</sup> This ensures that reserves always remain available for redemptions and are not re-used or pledged with a view to increase investment returns.

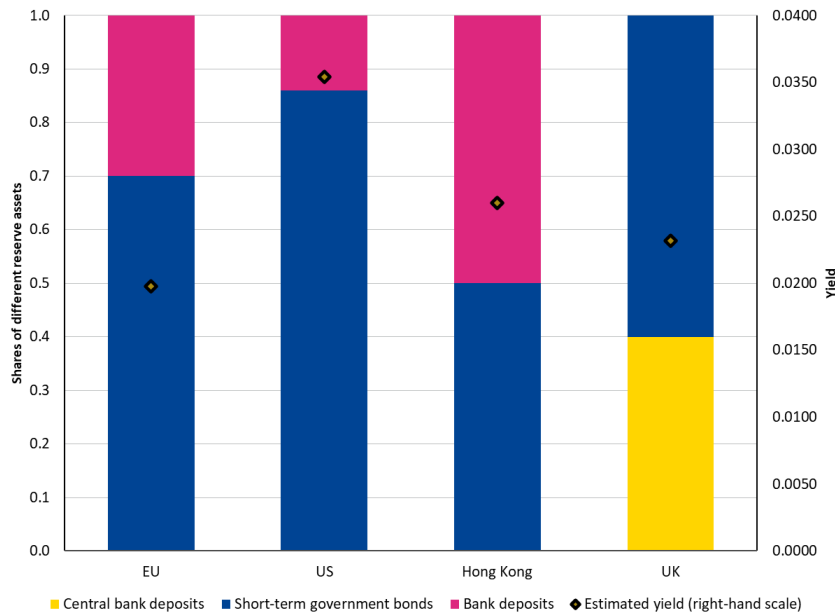
**Figure 3.1**  
**Reserve composition and estimated yields on reserves, January 2026**  
(in value)

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<sup>39</sup> These are, however, not applicable to credit institutions. Another difference between credit institutions and electronic money institutions is that the latter do not have access to ECB's repo liquidity operations and are explicitly excluded from accessing central bank safeguarding accounts, see ECB (2025).

<sup>40</sup> See USDT audit reports.

<sup>41</sup> However, Article 37 of MiCAR – which, among other things, requires the issuer to ensure that reserve assets are not encumbered or pledged as financial collateral – does not seem to apply to credit institutions issuing EMTs.



Notes: Yields on short-term government securities are proxied by 3-month government bill rates. For the EU, a AAA-rated euro area average is used. Bank deposit returns are proxied by interbank overnight rates: the euro short-term rate for the EU, HIBOR for Hong Kong, the Secured Overnight Financing Rate for the US, and the Sterling Overnight Index Average for the UK. Where quantitative thresholds are specified, the shares of reserve assets are taken directly from the relevant regulations. The reserve composition of US stablecoins is modelled based on USDC disclosures; USDT is excluded, as it holds higher-yielding assets (e.g. bitcoin) that are prohibited under the GENIUS Act. For Hong Kong, a 50:50 reserve allocation is assumed.

Sources: National authorities, ECB, Trading Economics

It is also important to examine how stablecoin holders are protected in the event of insolvency of a stablecoin issuer (Table 3.2). Most jurisdictions opt to set up a recovery and resolution regimes to manage issuer failures. In contrast, the US has introduced a super-priority of stablecoin holders over other creditors in insolvency proceedings.

All requirements on stablecoins' reserve backing are to ensure stablecoin issuers' capacity to redeem stablecoins into fiat money, when requested. Redemptions convert claims on-chain into off-chain money for the token holders, reducing proportionately the stablecoin liability for the issuer, which liquidates a corresponding part of the reserves.

All jurisdictions establish a statutory right of redemption for stablecoin holders, complemented by requirements for issuers to put in place robust redemption policies. However, regulatory approaches diverge with respect to redemption fees and the specification of redemption timelines (Table 3.3). Except for the EU, the jurisdictions considered allow stablecoin issuers to charge redemption fees, provided they are disclosed and deemed reasonable. Similarly, while the EU and the US require redemption to be "timely" without prescribing a specific deadline, Hong Kong and the UK mandate that redemption be completed within a same day or next day framework. In practice, redemption speed and accessibility may be further affected by operational and compliance-related factors, such as anti-money laundering checks and the validation of redemption requests. For some industry representatives, the same-day redemption requirement in some jurisdictions could also reduce scope for competition and be more burdensome for prospective stablecoin issuers, given the uneven requirements in this regard across major jurisdictions.<sup>42</sup> Moreover, some stablecoin issuers impose additional constraints, including minimum redemption thresholds or limitations on who may redeem directly with the issuer.<sup>43</sup> For example, direct redemption of stablecoins with Circle may not

<sup>42</sup> See InnovateFinance's response to the Bank of England plan to regulate stablecoins in the UK: <https://www.innovatefinance.com/consultation/innovate-finance-and-digital-pound-foundation-response-to-bank-of-england-plans-for-stablecoin-regulation/>.

<sup>43</sup> The GENIUS Act does not specify whether all stablecoin holders must be allowed to redeem stablecoins directly from the issuer,

always be possible,<sup>44</sup> thus necessitating reliance on intermediaries such as crypto exchanges. Further limitations on redemption rights may also arise in recovery or resolution scenarios, such as through the application of liquidity fees or temporary restrictions. As a result, the practical impact of contractual arrangements and regulatory caveats, often not standardised across issuers and jurisdictions, may only become apparent under stress conditions.

**Table 3.2**  
**Issuer insolvency safeguards**

EU	US	Hong Kong	UK
<p>Credit institutions may be subject to recovery and resolution measures deriving from Single Resolution Mechanism Regulation for significant institutions or Bank Recovery and Resolution Directive and national resolution authorities for credit institutions which are not significant.</p> <p>EMT issuers must maintain recovery and orderly redemption plans under MiCAR.</p> <p>National insolvency laws apply to all EMT issuers including both credit institutions and electronic money institutions.</p>	<p>Mandatory stay once petition for bankruptcy.</p> <p>Stablecoin holders have priority over other creditors in insolvency proceedings.</p> <p>Payment stablecoins not covered by Federal Deposit Insurance Corporation insurance.</p>	<p>Issuers must use trust structures to segregate reserve assets from their own funds, for the benefit of holders.</p> <p>In insolvency, stablecoin holders gain enforceable rights (backed by legal opinion).</p> <p>Hong Kong Monetary Authority could intervene early if licensee nears inability to meet obligations, insolvency, payment suspension, or business halt.</p>	<p>Bank of England consultation and HM Treasury's policy aim: systemic stablecoin issuers should be subject to recovery and resolution requirements.</p> <p>Backing assets held in trust by regulated custodians solely for stablecoin holders, legally segregated from the issuer's estate in bankruptcy.</p> <p>For systemic issuers, Bank of England requires arrangements that guarantee continued access to backing assets during recovery or resolution.</p>

Source: Authors

The economic literature highlights important policy trade-offs associated with broad and frictionless redemption rights, such as the elimination of fees and the imposition of short redemption timelines. On the one hand, easier access to redemption at par can strengthen price stability and reduce the concentration of arbitrage activity. On the other hand, it may increase run risk by facilitating large-scale, simultaneous redemption demand (Ma et al., 2025).

or if intermediary exchanges are permitted to process redemption requests for certain stablecoin holders, such as retail holders.

<sup>44</sup> See USDC terms, Section 13, "claims on funds" ([Circle | USDC Terms | Circle](#)): "Only Users Type A can redeem USDC directly with Circle. For Users Type A, your ability to redeem 1 USD with us for each USDC is conditional on (i) your possession of a corresponding amount of USDC associated with a registered Circle Mint account, (ii) no violation of these Terms or your Circle Mint account User Agreement, and (iii) no action, pending or otherwise, by a regulator, law enforcement or a court of competent jurisdiction that would restrict redemption. Sending USDC to another address automatically transfers and assigns to that Holder, and any subsequent Holder, the right to redeem USDC for USD with us so long as the Holder is eligible to, and does, register a Circle Mint account (and thereby becomes a User Type A)."

**Table 3.3**  
**Stablecoin redemption policy**

EU	US	Hong Kong	UK
Redemption at par value, at any time, subject to anti-money laundering checks	Redemption at a fixed amount of monetary value	Redemption at par within one business day	Redemption at par value directly with the issuer by the end of the next business day, subject to the request being valid
No fees (except in recovery/resolution)	Timely redemptions and clearly disclose all fees	No unreasonable fees nor burdensome conditions	Explanation of fees and procedure for redemption
White Paper to disclose conditions.			

Source: Authors

### System-wide prudential safeguards

One key dimension of stablecoin regulation is to safeguard market stability in anticipation of a possible acceleration in stablecoin adoption. Stablecoins may pose risks that can be analysed through multiple lenses. They can and act as shock amplifiers not only through a rapid expansion of their market capitalisation, but also via their interlinkages with other financial market participants, including banks, investment funds, and government securities markets. Consequently, some jurisdictions tend to regulate stablecoins from a system-wide perspective, beyond the stabilisation mechanics. As summarised in Table 3.4, primary elements considered include: (i) the existence of tiered supervisory regimes that impose more stringent requirements on systemically important stablecoin issuers; (ii) the use of quantitative caps on stablecoin issuance or circulation; (iii) issuers' access to central bank liquidity backstops; and (iv) restrictions on the payment of interest to stablecoin holders.

As regards the existence of a tiered supervision regime, the EU and the UK have a similar approach, singling out “significant stablecoin issuers” in MiCAR and “systemic stablecoin issuers” in the Bank of England proposal. In addition, the criteria to identify significance or systemic importance include transaction volume, but also potential spillovers to the financial system. MiCAR highlights significant stablecoin interconnectedness to financial system, the international scale of their activities, and certain issuers' role in the broader crypto ecosystem – namely whether they issue other ARTs or EMTs and provide other crypto asset services. The Bank of England proposal has formulated similar criteria to define systemic stablecoin issuers.

Significant or systemic stablecoin issuers are subject to more stringent supervision, in terms of the supervisory authority, but also capital and liquidity requirements. For instance, under MiCAR, significant EMT issuers are subject to European Banking Authority supervision and need to conduct liquidity stress tests; their own funds need to hit a higher bar compared to non-significant issuers. In the Bank of England proposal, the bank would regulate systemic payment systems and systemic stablecoin issuers, covering prudential standards, reserve adequacy, redemption at par, operational resilience, and backing asset requirements while the UK's Financial Conduct Authority would continue to supervise conduct and consumer protection. Non-systemic stablecoin issuers would remain under Financial Conduct Authority supervision.

The US has a tiered supervisory system based on the outstanding volume of payment stablecoins. Issuers with less than USD 10 billion in outstanding payment stablecoins may operate under state supervision provided that the state's framework is certified as “substantially similar” to the federal framework, as determined by the Treasury-led Stablecoin Certification Review Committee. Issuers exceeding the threshold must operate under federal oversight, unless the Treasury Secretary determines otherwise under specified provisions. Hong

Kong does not make an explicit distinction between significant and non-significant issuers.

As regards caps on stablecoin outstanding or transaction volumes, the Bank of England proposal stands out as it explicitly suggests temporary holding limits for individuals and corporates before the stablecoin-based system is fully established. Individual holding is limited to GBP 20,000 per stablecoin, and business holding is limited to GBP 10 million per stablecoin, with possible exemptions for certain large corporates. It is worth noting that MiCAR does set out volume caps, in terms of total outstanding value and numbers of transactions, but only for EMTs denominated in a foreign currency.

Another defining feature in stablecoin regulations across major jurisdictions is the non-interest-bearing requirement. However, jurisdictions differ in terms of the scope of the prohibition and the entities targeted. The EU has the most restrictive requirement, forbidding granting interest for both stablecoin issuers and service providers. Moreover, interest is defined very broadly, referring to any remuneration or any other benefit related to the length of time for which a stablecoin is held, including net compensation and discounts. The US framework prohibits granting interest at issuer level but does not seem to ban explicitly interest provided by stablecoin service providers. The Hong Kong Stablecoins Ordinance allows marketing incentives not amounting to interest payments and the Bank of England is currently examining incentives other than interest. Therefore, discrepancies exist across jurisdictions and could further affect financial incentives for potential stablecoin holders.

Finally, stablecoin issuers generally act<sup>45</sup> as ‘narrow banking’ without access to a central bank master account and are not supported by a central bank liquidity backstop in the event of market distress. Access to a central bank master account concerns operational settlement in central bank money and does not itself confer any right to borrow from the central bank. By contrast, a central bank liquidity backstop involves the provision of funding in stress and exposes the central bank to credit and moral hazard risks; it is therefore subject to much stricter eligibility conditions. We note that the UK is explicitly considering a central bank liquidity backstop for systemic stablecoin issuers under strict conditions. For instance, such a backstop would be contingent and temporary, activated only in exceptional stress scenarios where normal market liquidity is unavailable. And liquidity would be provided against eligible collateral, ensuring the Bank of England does not assume credit risk beyond the secured assets. In fact, similar to the remedies prescribed by Diamond and Dybvig (1983), access to a central bank liquidity backstop would constitute a solid solution to prevent stablecoin runs. In the US, Federal Reserve governor Christopher J. Waller<sup>46</sup> has mentioned a potential prototype under which stablecoin issuers could access a “skinny” central bank master account, without indicating a commitment to backstopping stablecoins.

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<sup>45</sup> It is worth noting here the different positions of credit institutions and electronic money institutions as EMT issuers in Europe; the former have access to central bank accounts, the latter do not. See ECB (2025e).

<sup>46</sup> See <https://www.federalreserve.gov/newsevents/speech/waller20251021a.htm>.

**Table 3.4**  
**System-wide prudential safeguards**

	EU	US	Hong Kong	UK
<b>Systemic/significant issuers</b>	<p>Tiered supervision with significant EMTs under European Banking Authority supervision and subject to stricter requirements; non-significant issuers under national supervision.</p> <p>Significance mainly based on volume but also include other factors e.g. interconnectedness to financial system, etc.<sup>47</sup></p>	<p>Tiered supervision based on volume only. Issuers with less than USD 10 billion in outstanding payment stablecoins may operate under state supervision; issuers exceeding USD 10 billion in outstanding stablecoins must operate under federal oversight.</p> <p>Treasury Secretary and the Treasury-led Stablecoin Certification Review Committee have roles in determining the supervisory regime.</p>	Not explicit	<p>Bank of England proposal focuses on systemic stablecoin issuers.</p> <p>Systemic nature determined by volume but also by the nature and extent of relationships with other financial market infrastructures, etc.</p> <p>Systemic stablecoin issuers under Bank of England supervision for prudential risks, reserve adequacy, and operational resilience; conduct and consumer protection with Financial Conduct Authority.</p> <p>Non-systemic stablecoin issuers under Financial Conduct Authority-only supervision.</p>
<b>Caps on market size</b>	Volume caps (in terms of value and number of transactions per day) apply to EMTs denominated in a non-EU Member State official currency.	No market cap for federally supervised issuers.	No market caps	<p>Temporary holding limits for systemic stablecoin issuers.</p> <p>GBP 20,000 per stablecoin holding for individuals; GBP 10 million per stablecoin for business with possible exemptions for certain large corporates.</p>
<b>Interest bearing</b>	Interest payment prohibited for EMT issuers and CASPs.	<p>Any form of interest, yield, or reward on payment stablecoins prohibited.</p> <p>No explicit prohibition on service providers; potential 'loopholes' for exchanges or affiliates to offer indirect yield.</p>	<p>No interest bearing for issuers and service providers</p> <p>Marketing incentives allowed</p>	<p>No interest paid to stablecoin holders.</p> <p>Incentives other than interest currently being examined.</p>
<b>Liquidity backstop</b>	Not envisaged	Not envisaged.	Not envisaged	Central bank liquidity support to systemic stablecoin issuers in distressed times under consideration

Source: Authors'

<sup>47</sup> As per Article 56(1)/43(1) of MiCAR, the designation as "significant" is mandatory if the EMT satisfies at least three of the following criteria during the periods specified in article 56(1)(a)-(b)): (a) the number of ART holders is larger than 10 million; (b) the value of the ART issued, its market capitalisation, or the size of the reserve of assets of the issuer of the ART token is more than €5 billion; (c) the average number and average aggregate value of transactions in that ART per day during the relevant period, is higher than 2.5 million transactions and €500 million respectively; (d) the issuer of the ART is a provider of core platform services designated as a gatekeeper in accordance with Regulation (EU) 2022/1925 of the European Parliament and of the Council; (e) the significance of the activities of the issuer of the ART on an international scale, including the use of the ART for payments and remittances; (f) the interconnectedness of the ART or its issuers with the financial system; (g) the fact that the same issuer issues at least one additional ART or EMT, and provides at least one crypto asset service.

## Technology infrastructure

Stablecoin regulations across jurisdictions seem to have adopted a technology-neutral stance, giving no explicit preference on the type of DLT on which stablecoins are issued. The two distinguishing characteristics are whether the DLT platform is public/private and permissioned/permissionless. The differences between the combinations of these two properties stem mainly from their access controls and governance models. Different variants allow DLT operators to balance transparency, decentralisation, and security according to specific needs, ranging from open-source global networks like Ethereum to highly restricted, single-organisation corporate ledgers. Hybrid DLTs combining selected features also exist. Table 3.5 summarises the most important characteristics for DLT implementation.

**Table 3.5**  
**Most important characteristics of DLT implementation**

	Permissioned	Permissionless
Private	<p>One or more entities have full control over who can participate in the system and in what roles.<sup>48</sup> Usually run on private networks.</p> <p>Nodes/users accepted into the network face restrictions on who can read, send, or validate transactions. Additional authorisation steps are involved.</p>	<p>One or more entities have full control over who can participate in the system and in what roles. Usually run on private networks.</p> <p>Nodes/users accepted into the network <u>do not</u> face restrictions on who can read, send, or validate transactions.</p>
Public	<p>The DLT network is available for public use.</p> <p>Nodes/users in the network require permissions or authorisation to read, send, or validate transactions.<sup>49</sup></p>	<p>The DLT network is available for public use with no restrictions placed on nodes to participate in validation or transactions.</p> <p>Users typically use pseudonym.</p>

Source: Authors

In principle, the jurisdictions we have examined mainly focus on regulatory outcome. As long as the risk management objective is achieved, there is no preference for any type of blockchain (see Table 3.6). However, stablecoins across different fiat-currency pegs are currently issued on public permissionless blockchains, with Ethereum dominating more than half of the stablecoin market (see Figure 3.2). Public authorities' stance on public blockchains – their benefits and risks – matter for blockchain development, but also for the future of all tokenised finance.<sup>50</sup>

We note policy stance shifts in the UK as regards the use of public DLTs. In its 2023 discussion paper (Bank of England, 2023), the Bank of England signalled caution against public DLTs due to the lack of a single entity within permissionless ledgers responsible for risk controls. During the consultation, the industry asked for clarity on whether an issuer must switch from using public permissionless ledgers to private-permissioned ledgers once recognised as a systemic issuer. In the updated proposal, the Bank of England clarified that systemic stablecoin issuers may use public permissionless ledgers, provided that satisfactory risk controls are put in place and adherence to UK regulatory standards for resilience, settlement finality, and legal enforceability is ensured (Bank of England, 2025). But permissioned private blockchains remain strongly preferred for systemic stablecoin arrangements due to governance and operational control

<sup>48</sup> For a comparison of public versus private DLT definitions: <https://www.dltscience.org/news/what-is-dlt-distributed-ledger-technology-explained>.

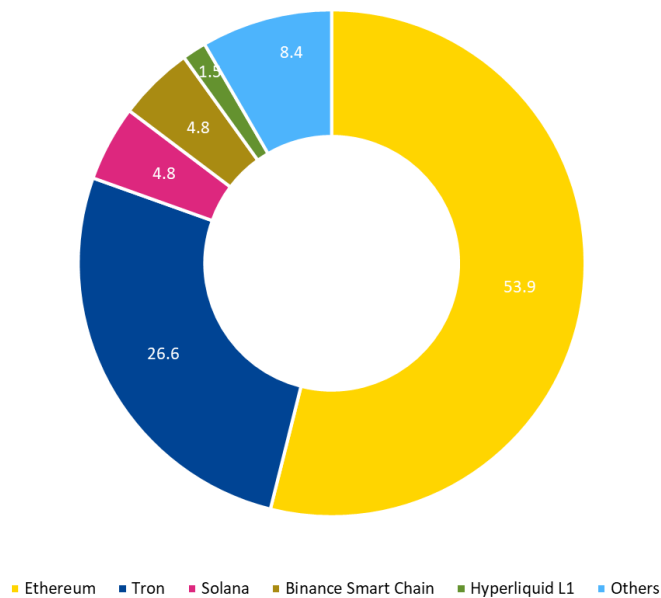
<sup>49</sup> See the following paper on the definition of public-permissioned blockchains: [Public-Permissioned blockchains as Common-Pool Resources - Archive ouverte HAL](#)

<sup>50</sup> Shin (2026) shows that the choice of the type of blockchain matters. The decentralised consensus mechanisms at the heart of public permissionless blockchains, which stablecoins inherit, could lead to the fragmentation of the monetary landscape.

benefits.<sup>51</sup> In this regard, it is worth noting that the UK has a similar regulatory view on DeFi. Fully decentralised governance models and autonomous smart contracts lacking clearly responsible entities are considered incompatible with systemic designation. Any integration of DeFi components must include identifiable accountable parties, strong risk controls, and adherence to UK regulatory frameworks.

The EU, the US, and the UK set explicit regulatory objectives to enhance stablecoin interoperability, each with specific angles. The US and the UK aim to facilitate interoperability within the digital asset or multi-money ecosystem, thus between stablecoins and other forms of digital and tokenised assets. The UK has set up a Retail Payments Infrastructure Board chaired by the Bank of England to explore options for facilitating such interoperability with new forms of digital money. The US also cares about the interoperability between onshore US dollar-pegged stablecoins and those issued overseas. The EU's MiCAR has a narrower scope on interoperability, focusing on significant ARTs and EMTs. Their issuers are required to ensure that tokens can be held in custody across different CASPs on a fair, reasonable, and non-discriminatory basis.

**Figure 3.2**  
**Stablecoin market capitalisation by blockchain**  
(in %)



Note: Data accessed on 5 January 2026.  
Sources: DefiLlama, authors' calculations

<sup>51</sup> As shown in Biancotti C. (2026), permissionless blockchains carry some infrastructural risks for assets transacted thereon, including stablecoins.

Table 3.6  
Stablecoins' technological infrastructure

	EU	US	Hong Kong	UK
Choice of blockchain and stance on DeFi	No explicit requirements on the choice of blockchains.	No explicit requirements on the choice of blockchains.  Policy shifts towards pro-innovation, technology-neutral stance, evidenced by the President's Working Group on Digital Assets report and the Federal Reserve's 2025 Policy Statement on Section 9(13) of the Federal Reserve Act.	Outcome-based approach to public / private chains.	Outcome-based approach to public / private chains.  Private blockchains remain strongly preferred for systemic stablecoins, but no categorical prohibition of public blockchains.
Interoperability	Requirement for significant ART and EMT issuers to ensure that tokens can be held in custody across different CASPs on a fair, reasonable, and non-discriminatory basis.  Higher interoperability requirements for significant ARTs and EMTs.	Regulators to establish interoperability standards for digital finance transactions.  The US Treasury Secretary can enter into agreements with other jurisdictions to facilitate international transactions and interoperability with US dollar-denominated payment stablecoins issued overseas.	Interoperability not set as a regulatory objective or expectation in Hong Kong Stablecoins Ordinance  Wider interoperability tested through Project Ensemble	BoE objective to deliver interoperability between systemic stablecoins, tokenised bank deposits, and central bank money.

Source: Authors

### Cross-border market access aspects

Finally, it is worth considering certain international or cross-border aspects of stablecoin issuance, focusing on two questions: whether and under which conditions a foreign stablecoin issuer can operate in a given jurisdiction, and whether special treatments exist that can regulate foreign currency-pegged stablecoins, given their potentially adverse impact on a jurisdiction's monetary sovereignty (Table 3.7).

The GENIUS Act establishes a conditional "equivalence" regime under which a foreign payment stablecoin issuer may have its stablecoins offered or sold in the US without establishing a US subsidiary. The condition is that the issuer is regulated in a jurisdiction that the US Treasury, upon recommendation of every member of the Stablecoin Certification Review Committee, deems to have a supervisory regime comparable to US requirements. The issuer also needs to register with the Office of the Comptroller of the Currency and maintain sufficient reserves in a US financial institution (unless covered by a reciprocal arrangement). The issuer's domiciliation must be neither under comprehensive US sanctions nor designated a primary money laundering concern. It is worth noting that while the equivalence regime may allow foreign issuers to access the US market, compliance with the GENIUS Act framework appears to be limited to US dollar-

denominated issuances.

Table 3.7  
Cross-border aspects of stablecoin regulations

	EU	US	Hong Kong	UK
<b>Equivalence regime (foreign issuers)</b>	<p>No third-country equivalence regime.</p> <p>Third-country issuers must be licensed under MiCAR.</p> <p>Reverse solicitation possible, but of limited use.</p> <p>Cooperation arrangements with third countries on exchange of information foreseen.</p>	<p>Foreign issuers may enter US markets without establishing a US subsidiary.</p> <p>Foreign equivalence under certain conditions and at the discretion of the US Treasury Secretary.</p>	<p>No third-country equivalence regime.</p> <p>Stablecoin offerings issued by unlicensed foreign issuers are restricted to professional investors only.</p>	<p>Not third-country equivalence regime.</p> <p>A foreign issuer would only fall within the licensing requirement if their issuance activity is in the UK.</p>
<b>Stance on foreign currency-denominated stablecoins</b>	<p>Foreign-currency stablecoin issuance allowed, but quantitative market-cap and usage limits are introduced.</p> <p>ECB can issue an opinion as regards the threat to monetary sovereignty.</p>	<p>Foreign currency stablecoin issuance beyond the remit of the GENIUS Act.</p>	<p>Foreign currency stablecoin issuance allowed.</p> <p>Stablecoin offerings issued by unlicensed issuers (e.g. foreign-based issuers of non-Hong Kong dollar-linked stablecoins) are restricted to professional investors only.</p>	<p>Bank of England recognises that HM Treasury could choose to “recognise” a foreign currency stablecoin as systemic in the UK, so fall within the Bank of England’s proposed regulation, if its usage grew large.</p>

Source: Authors

In comparison, the EU, Hong Kong, and the UK do not offer a third-country equivalence regime; namely to serve clients in these jurisdictions, foreign stablecoin issuers are required to be locally licensed and abide by local regulations.

In the EU, the establishment of an equivalence regime – currently missing – to determine which third countries offer protections equivalent to those afforded by MiCAR may be one of the safeguards to consider, among other things, in the multi-issuance scheme debate (ECB, 2025a). It is worth noting that reverse solicitation – when a foreign stablecoin issuer provides stablecoin or related services solely in response to a client’s own initiative, without any prior marketing – could apply, but this is unlikely to be on a vast scale. In Hong Kong, stablecoin offerings issued by locally unlicensed foreign issuers are restricted to professional investors. Only Hong Kong Monetary Authority-licensed issuers can serve both retail and professional investors.

As mentioned, the US GENIUS Act currently focuses only on US dollar-pegged payment stablecoins and it remains to be seen to what extent foreign currency-pegged payment stablecoins will be allowed. This is also in line with the policy intent of using stablecoins to help secure the US dollar’s international reserve status. In contrast, stablecoin regulations in the EU, Hong Kong, and the UK all allow issuance of stablecoins pegged to foreign currencies. The EU’s framework allows issuance of stablecoins pegged to a foreign currency, defined as a currency that is not an official currency of an EU Member State.<sup>52</sup> However, MiCAR set out specific

<sup>52</sup> For example, SG FORGE, a subsidiary of the French bank *Societe Generale* issued a US dollar-pegged stablecoin in 2025, after its

provisions against the risk of a foreign currency stablecoin gaining too large payment volume in the EU that could threaten the EU's monetary sovereignty. Under MiCAR, the EU imposes a quantitative market cap and usage limits on foreign currency-denominated stablecoins. Stablecoins, including those in foreign currency, with a daily average number of transactions exceeding one million and an average volume of transactions that exceeds €200 million are restricted. Beyond these thresholds, issuance must stop, and within 40 working days the issuer must submit a plan to the competent authority to restore compliance. In addition, the ECB can issue an opinion deeming that the EMT “poses a threat to the smooth operation of payment systems, monetary policy transmission, or monetary sovereignty”.<sup>53</sup>

## Chapter conclusion

The comparison shows that stablecoin regulation has emerged from markedly different institutional and market contexts. MiCAR originated within the European Commission's 2020 Digital Finance Package and was shaped by the objective of establishing a comprehensive and durable framework for crypto assets, partly in response to the proliferation of private unregulated initiatives. By contrast, the US GENIUS Act was enacted in a context where the US already enjoys significant crypto market dominance and where political resistance to a retail CBDC is strong. Hong Kong and the UK developed their frameworks at a later stage, seeking to position themselves competitively in global digital finance without comparable structural dominance.

At a high level, all jurisdictions regulate fiat-backed stablecoins, among other types of stablecoins. However, important differences emerge in calibration and institutional design. Reserve management requirements reflect the depth and structure of domestic financial markets. The US benefits from a large and highly liquid market for high quality government securities, which facilitates a commercially viable reserve model. The EU has embedded stablecoins within existing e-money and banking regulation, imposing strict reserve and safeguarding requirements that may raise entry barriers for non-bank crypto firms. The UK, where credit provision remains strongly bank-centred, differentiates between systemic and non-systemic stablecoins, requiring systemic issuers to hold a substantial share of reserves in unremunerated central bank deposits.

Approaches to dealing with stress periods are still evolving and remain at an early stage across jurisdictions. However, emerging differences may be observed. The EU and the UK tend to emphasise ex ante recovery and resolution planning frameworks, whereas policy discussions and proposals in the US have tended to rely more heavily on ex post insolvency mechanics, with a strengthened creditor priority regime in bankruptcy and expedited access to reserves for stablecoin holders. These differences reflect broader institutional approaches regarding ex ante resolution planning versus ex post insolvency protection. However, the interaction between stablecoins and insolvency or resolution regimes remains under development in all jurisdictions, and the effectiveness of these approaches has yet to be tested in practice.

Redemption rights are formally recognised across jurisdictions, but operational details are often left to contractual arrangements. In stress scenarios, these design choices may prove decisive in determining the timing, predictability, and effective value of redemptions.

All jurisdictions except Hong Kong define thresholds for systemic relevance and apply enhanced requirements to systemic issuers. The UK places particular emphasis on oversight of systemically relevant sterling-denominated stablecoins. None of the frameworks provides

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launch of a euro-pegged stablecoin. See <https://www.sgforge.com/usd-stablecoin-bny-custodian/>.

<sup>53</sup> Articles 23 and 24 MiCAR.

deposit insurance type protection. However, the UK has left open the possibility of central bank liquidity support for systemic issuers in exceptional circumstances, highlighting a more flexible stance regarding public backstops.

With respect to circulation limits, most jurisdictions do not impose quantitative caps. The EU is an exception in applying limits to foreign currency-denominated stablecoins. The UK has introduced transitional holding limits to mitigate the risk of rapid deposit outflows, although these are intended to be temporary.

All jurisdictions prohibit issuers from paying interest on stablecoins. The European framework adopts the strictest interpretation of this principle. In contrast, the US appears to tolerate remuneration at the intermediary level, and neither the UK nor Hong Kong excludes alternative forms of market-based incentives. Differences in approach to remuneration may have competitive implications for market development. Technological neutrality is broadly maintained, but regulatory preferences vary. The UK has expressed a preference for permissioned infrastructures while reconsidering the role of permissionless systems subject to safeguards. Both the US and the UK place increasing emphasis on interoperability as a foundation for scalable tokenised markets. Finally, cross border treatment reveals significant divergence. The US is the only jurisdiction in this comparison with an explicit form of equivalence regime, although it does not specifically address foreign currency-denominated stablecoins. Other jurisdictions permit circulation of foreign currency tokens but differ in how they address systemic implications. The EU stands out in imposing explicit safeguards on foreign currency-denominated stablecoins, while the UK signals a willingness to subject such tokens to its systemic regime if they become significant.

Taken together, the comparative analysis suggests that MiCAR represents one of the most stringent stablecoin regimes among major jurisdictions. Its design prioritises financial stability, investor protection, and monetary integrity over rapid market expansion. However, regulatory divergence across jurisdictions may shape competitive dynamics, cross-border issuance models, and the long-term configuration of global stablecoin markets. The central policy question for the EU is, therefore, not only whether MiCAR is sufficiently robust, but whether its calibration strikes an appropriate balance between prudential safeguards and the capacity to participate in the evolving global digital finance ecosystem.



## **4. Reflections on potential development of stablecoins in Europe**

## Chapter introduction

The comparative analysis in Chapter 3 has shown that the EU's MiCAR sets a notably high regulatory bar for stablecoin issuers and CASPs operating in the EU. Its architecture prioritises market integrity, investor protection, and the containment of financial stability risks over potentially rapid market expansion of stablecoins. This regulatory stance is also aligned with the recommendations of international standard-setting bodies, notably the Financial Stability Board (Financial Stability Board, 2025a) and IOSCO (IOSCO, 2025a).

MiCAR pays particular attention to systemic financial risks, leveraging a tiered supervisory framework, under which “significant” stablecoins and their issuers are subject to enhanced prudential, governance, and supervisory requirements. Significance is primarily assessed based on quantitative thresholds (such as market capitalisation and transaction volumes) but also considers stablecoin issuers’ interconnectedness with the traditional financial system, cross-border activity, and their broader role in the crypto asset ecosystem. This approach reflects a macroprudential logic: risks arising from scale, substitutability, and interconnectedness warrant proportionately stricter oversight.

Particular attention is paid to foreign currency-denominated stablecoins, as their circulation and volumes are subject to limits, which may help to counterbalance USD dominance in the digital assets space.

MiCAR imposes stringent reserve backing requirements, both in terms of asset composition and custody location. Eligible reserve assets are tightly defined, and custody arrangements, especially the location requirement, are designed to ensure legal certainty, asset segregation, and rapid availability for redemptions. These safeguards are complemented by explicit market integrity tools, including enforcement of redemption at par, the possibility to suspend issuance or transfers, and quantitative caps for certain categories of stablecoins. Together, these provisions aim to allow regulators to intervene promptly to mitigate run dynamics and spillovers to adjacent markets, such as bank deposits, money market funds, or sovereign bond markets.

MiCAR effectively channels stablecoin issuance through credit institutions and electronic money institutions and seeks to bring all client-facing issuers and service providers operating in the EU within a single regulatory framework, without relying on equivalence regimes for third-country providers. This reinforces supervisory control and may raise barriers to entry, particularly for new or non-EU-based innovators.

In the current global debate, stablecoins are slowly emerging as a private payment instrument within a tokenised financial ecosystem in which public and private forms of digital money or financial instruments may coexist. When looking at the evolving global regulatory landscape and the prospective development of euro-denominated stablecoins, certain nuances merit further reflections. This is the focus of this chapter. It indicates the areas where the EU could progress more effectively through continued calibration, particularly in shaping and guiding broader tokenisation trends,<sup>54</sup> where stablecoins may serve as an early catalyst.

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<sup>54</sup> On the risks arising out of tokenisation, see IOSCO (2025b).

## MiCAR and the potential development of euro-denominated stablecoins: open points for calibration

### Market and economic constraints for euro-denominated stablecoins

Beyond regulation, the economic viability of euro-denominated stablecoins is shaped by structural features of European financial markets that currently place EU-based issuance at a disadvantage relative to the US. The global stablecoin market remains overwhelmingly US dollar-centric: as discussed in Chapter 1, close to 99% of stablecoin market capitalisation is denominated in US dollars. This dominance is reinforced by strong network effects. US-dollar stablecoins benefit from a mature on- and off-chain payments ecosystem built and maintained by large US financial and technology firms, including Visa and Mastercard, as well as major retail platforms such as Amazon, which can leverage their extensive user bases to promote proprietary stablecoin solutions. Europe lacks comparable network scale and globally dominant payment infrastructures, limiting the potential reach and adoption of euro-denominated stablecoins.

Differences in market structure are compounded by materially different revenue prospects for stablecoin issuers across jurisdictions. As shown in the comparative analysis in Chapter 3 and illustrated in Figure 3.1, variations in reserve composition, the availability of safe assets, and prevailing yields translate directly into differences in issuer profitability. The US currently offers higher returns on reserve assets, reflecting both higher interest rates and the depth and liquidity of the US Treasury bill market. By contrast, euro area safe assets are scarcer and yield significantly less, weakening the economic incentives to issue euro-denominated stablecoins.

MiCAR's design does not, in itself, preclude the issuance of euro-denominated EMTs; on the contrary, it places them in a relatively favourable position vis-à-vis foreign-currency EMTs, which are subject to volume- and circulation-based constraints. Nevertheless, the limited supply of common euro-denominated safe assets and their comparatively low yields may deter potential issuers, given that stablecoin business models rely heavily on income generated from reserve assets. This disincentive is further reinforced by the EU's comparatively restrictive stance on interest-bearing features for stablecoins and CASPs, which could become a binding constraint should other jurisdictions permit greater remuneration or yield-sharing with users. More broadly, Europe's safe asset ecosystem remains structurally smaller than that of the US. Even when combining supranational euro-denominated bonds with government bonds issued by sovereigns rated AA or above, the overall euro area safe asset market is roughly half the size of its US counterpart, with an even more limited supply of short-term instruments. As discussed in detail in Chapter 2, this has tangible implications for stablecoin reserve management. In practice, existing euro-denominated stablecoins rely almost exclusively on cash holdings, rather than on short-term government securities, whereas US dollar stablecoins can draw on a deep, liquid US Treasury bill market to optimise returns while maintaining high liquidity and safety.

### Ecosystem, technology, and infrastructure

MiCAR's regulatory perimeter<sup>55</sup> relies on clear, single entry points. A similar approach is adopted by the Digital Operational Resilience Act,<sup>56</sup> which establishes a comprehensive framework for information and communication technology risk management in the financial sector, not covering decentralised protocols. Decentralised software applications that allow users to access services – such as trading, lending, and borrowing – without intermediaries

<sup>55</sup> Recital 22 of MiCAR explicitly excludes from its scope fully decentralised crypto assets. Partially decentralised structures are in scope.

<sup>56</sup> Regulation (EU) 2022/2554 (Digital Operational Resilience Act).

(referred to as DeFi) remain niche in Europe (as reported in European Banking Authority and the European Securities and Markets Authority, 2025) but are growing in other parts of the world, both at the institutional level, notably in the US, and at the retail level, particularly in emerging economies like India.<sup>57</sup>

Potential use cases for stablecoins may originate from DeFi applications (e.g. staking, lending).<sup>58</sup> Other jurisdictions, for example the UK, are explicitly considering lending, staking, and DeFi-related services as part of a broader approach to crypto regulation. Should this market segment expand, it may require the EU to find an entry point for regulating DeFi applications.

MiCAR is formally neutral with respect to blockchain technology.<sup>59</sup> In practice, however, there are different interpretations as to the classification of different types of blockchains. A case in point is the different stance taken by, on the one hand, the Basel Committee on Banking Supervision on the “prudential treatment of crypto asset exposures” (known as SCO60),<sup>60</sup> where there is a distinction between permissioned and permissionless ledgers – the latter being considered riskier – and, on the other hand, the implementation of the crypto assets exposure classification under the European Banking Authority Regulatory Technical Standards, which explicitly deviate from the Basel Committee on Banking Supervision classification and do not differentiate a token’s riskiness based on the underlying type of technology or governance model of any distributed ledger.<sup>61</sup> A level playing field at international level, with a clear understanding of the risks as well as a functional approach to ensure the integrity of the financial markets’ move on chain, may be key in promoting trust towards these infrastructures.

Interoperability represents another key area. As shown in the comparison, MiCAR does not focus extensively on interoperability standards, yet the future of finance, particularly tokenised markets, is likely to depend on secure and scalable links across digital products and between public blockchains, permissioned networks, and traditional financial infrastructures. Standardisation – a precondition for interoperability – and greater regulatory clarity and standard-setting in this area, could play a decisive role in a move to tokenisation.

#### Improving the interaction between MiCAR and existing frameworks

The EU could reduce regulatory complexity by improving the interaction between MiCAR and existing frameworks. MiCAR interacts with a range of cross-sectoral EU frameworks, including those for e-money and payment services, anti-money laundering, digital operational resilience, and banking prudential rules where stablecoins are issued by credit institutions. The DLT Pilot Regulation further shapes the broader tokenisation environment. Together, this results in a layered and interconnected regulatory ecosystem in which stablecoin activity is embedded rather than governed by a single standalone regime. Recent reports have acknowledged that complexity and overlap may have unintentionally raised barriers to entry and risk pushing innovation outside the EU.<sup>62</sup>

<sup>57</sup> See [The Chainalysis 2025 Global Adoption Index](#).

<sup>58</sup> Some stablecoins issuers, including European ones, use decentralised protocols such as Morpho or Uniswap; see e.g. *Societe Generale-FORGE*, <https://www.sgforge.com/sgf-deploys-eurcv-usdcv-in-dex/>.

<sup>59</sup> Recital 9, MiCAR.

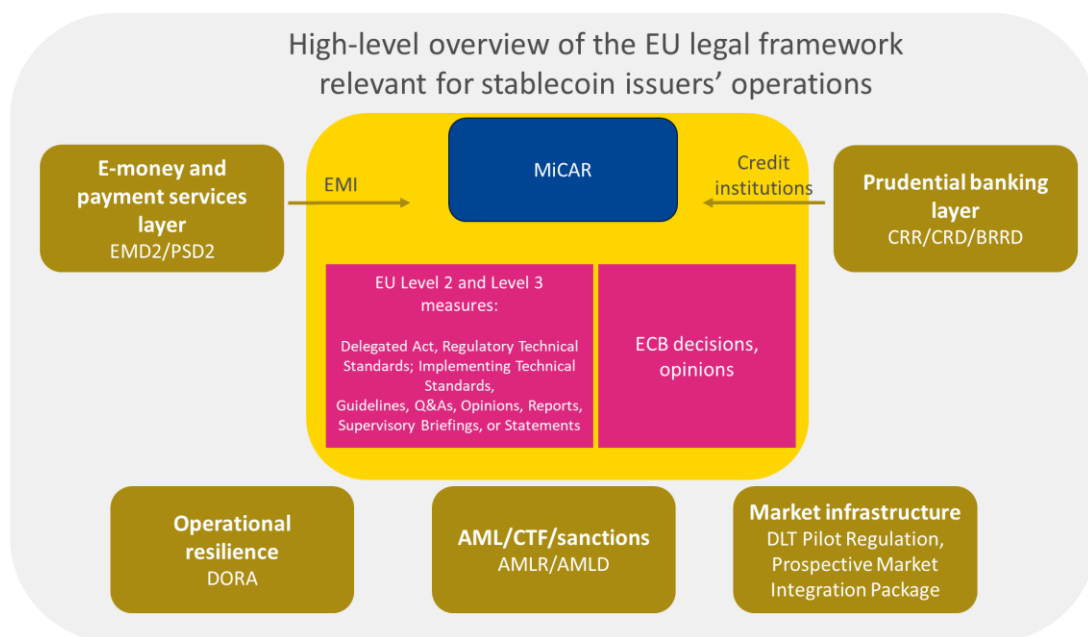
<sup>60</sup> See [https://www.bis.org/basel\\_framework/chapter/SCO/60.htm](https://www.bis.org/basel_framework/chapter/SCO/60.htm).

<sup>61</sup> See [Draft RTS on crypto asset exposures Article 501d-5.pdf](#)

<sup>62</sup> Similar entry issues were detected on the DLT Pilot Regime. See European Commission (2025), Directorate-General for Financial Stability, Financial Services and Capital Markets Union, Bourse Consult, Civitta, Dudás, G., Simpson, H. et al., *Study on consolidation and reducing fragmentation in trading and post-trading infrastructures in Europe – Final report*, Publications Office of the European Union, <https://data.europa.eu/doi/10.2874/2649452>. As a further confirmation, only a fraction of the existing crypto-firms are requesting their licence under MiCAR;

A first point to consider is the potential overlap between MiCAR and existing EU legislation in certain areas. A prominent example is the interaction between MiCAR and the Revised Payment Services Directive. EMTs may fall simultaneously under both regimes, creating duplicative or ambiguous obligations. The European Banking Authority addressed this issue through a no-action letter in June 2025, providing supervisory relief during a transition period that ended 2 March 2026 (European Banking Authority, 2025). Subsequently, in February 2026, the European Banking Authority issued an opinion advising national competent authorities on supervisory priority for the post-transition period (European Banking Authority, 2026). Nevertheless, a more durable legislative solution may be required to clarify the structural overlap between the two regimes.

**Figure 4.1**  
The EU's regulatory ecosystem for stablecoin-related operations



Notes: The high-level overview is limited to the most relevant EU rules for EMT issuers' operations. It does not necessarily cover rules applicable to CASPs, nor the division of supervisory responsibility among national competent authorities and the European Securities and Markets Authority or European Banking Authority, nor interaction with substantive national laws. EMD2 refers to the second Electronic Money Directive; PSD2 refers to the second Payment Services Directive.

Source: Authors

Another point to consider is the interplay between MiCAR and national legal systems as well as with different supervisory cultures within the EU, which may lead to uncertainty for intra-EU cross-border activity and 'jurisdiction shopping'. Relevant national property and insolvency laws must be analysed when dealing with segregation duties (e.g. those mandatory for CASPs) or failures of stablecoin issuers. Similarly, tax treatment of stablecoins may diverge across EU Member States.

The introduction of a 28<sup>th</sup> regime making it possible for innovative DLT companies to benefit from a single, harmonised set of EU-wide rules, including any relevant aspects of corporate, insolvency, labour, and tax law may help in further simplifying a level playing field.

With respect to supervisory approaches, recent reports (such as European Banking Authority, 2025a) have flagged that gaps in different supervisory practices have also been exploited to

see [French regulator says some crypto firms unresponsive as EU licence deadline approaches | Reuters](#).

minimise oversight in relation to money laundering. Differences at national authority level in the authorisation processes of stablecoin issuers and CASPs, the supervisory posture taken towards crypto assets and additional requirements introduced via ‘gold-plating’ may lead to an uneven playing field, where some EU Member States may see more exposure to crypto players than others – with the disruptive consequence that some national regulators may even consider refusing an EU passport to firms authorised in other Member States.<sup>63</sup>

It is in this context that further centralisation at the European Securities and Markets Authority level could be discussed.

Finally, with a view to implementing new use cases and facilitating scale and innovation, some degree of fine-tuning with existing EU legislation may be needed. For example, the settlement finality regime may be updated to make it compatible with DLT, allowing DLT-based systems to benefit from settlement finality protections and privileges. Clarifying whether, under the Central Securities Depositories Regulation, central securities depositories can enable cash settlements in stablecoins with appropriate safeguards,<sup>64</sup> may also be relevant to the use of euro-denominated stablecoins. These amendments are currently included in the Market Integration Package proposed by the European Commission.

#### Enhancing implementation clarity

One area where the EU could leverage its regulatory strength and enhance implementation clarity concerns the accounting of stablecoins. Currently, across various jurisdictions, existing accounting standards do not explicitly address how to classify stablecoins on corporate balance sheets. In practice, stablecoins may be treated as cash equivalents, financial assets, or intangible assets, depending on the interpretation adopted by preparers and auditors. For instance, in the US, practitioners tend to qualify stablecoins as a financial asset under US Generally Accepted Accounting Principles, provided that redemption at par exists and is legally enforceable.<sup>65</sup> However, the Financial Accounting Standards Board (the US accounting standard setter) is also examining whether certain digital assets may be classified as cash equivalents.<sup>66</sup>

Providing timely accounting guidance could offer the EU a first-mover advantage, particularly if MiCAR-compliant stablecoins are recognised, under clearly defined conditions, as cash equivalents. Under International Financial Reporting Standards, International Accounting Standards 7 defines cash equivalents as short-term, highly liquid investments that are readily convertible to known amounts of cash and are subject to insignificant risks of change in value. MiCAR-compliant stablecoins, particularly EMTs with robust redemption rights, high-quality reserve backing, and operational safeguards, could arguably meet these criteria.

Such recognition would materially affect several high-potential use cases, notably intra-group transfers, treasury management, and corporate liquidity optimisation. For these activities, balance-sheet classification is not a technical detail: it determines tax treatment, liquidity ratios,

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<sup>63</sup> [Exclusive: France threatens to block crypto licence 'passporting' in EU regulatory fight | Reuters](#)

<sup>64</sup> It is worth noting that stablecoins are not yet widely recognised as having demonstrated compliance with the requirements applicable to settlement assets in systemically important securities transactions under guidance from the Committee on Payments and Market Infrastructures and IOSCO (see Committee on Payments and Market Infrastructures and IOSCO, 2022), particularly with respect to the Principles for Financial Market Infrastructures. In the context of Project Guardian’s Fixed Income Workstream, led by the International Capital Market Association, which assessed different types of on-chain settlement assets, it is noted that: “Regulated stablecoins provide new opportunities for capital market participants [...]. However, as settlement assets, they give rise to unique risks—notably counterparty risk, the (ii)liquidity of the underlying reserve assets, and redemption risks—that must be carefully considered. Additionally, regulated stablecoins are generally not interest-bearing instruments.”(Monetary Authority of Singapore, 2025).

<sup>65</sup> See <https://www.forvismazars.us/forsights/2025/11/accounting-for-stablecoins-navigating-uncertainty-within-us-gaap>

<sup>66</sup> See <https://www.fasb.org/projects/current-projects/classification-of-certain-digital-assets-as-cash-equivalents-423255>

cash flow presentation, and internal risk management practices. From a comparative perspective, accounting clarity could give the EU an edge over jurisdictions where regulatory and accounting frameworks remain more ambiguous, reinforce MiCAR's credibility, and support the emergence of euro-based stablecoin use cases aligned with EU policy objectives.

The authorities could encourage early dialogue between prudential regulators, accounting standard setters, and market participants to identify under which conditions stablecoins may satisfy International Accounting Standards 7 criteria in practice. This would help translate MiCAR's legal safeguards, such as redemption at par and reserve quality, into accounting-relevant evidence.

Beyond accounting treatment, the effectiveness of MiCAR will also depend on how clearly and consistently its prudential safeguards are implemented in practice. One area where further clarification could be valuable concerns the assessment of reserve asset quality. While MiCAR sets detailed eligibility criteria for reserve assets, it leaves open questions about how their credit quality should be evaluated, and by which entities, on an ongoing basis. Providing a clearer role for recognised credit rating agencies, which are all under the supervision of the European Securities and Markets Authority, could enhance transparency and comparability across issuers.<sup>67</sup> Ratings or standardised credit assessments could serve as one input among others for supervisors and market participants in evaluating reserve robustness, stress resilience, and concentration risks, particularly as reserve portfolios evolve over time. Leading rating agencies have already been developing stablecoin-specific rating methodologies, with a view to providing transparency and credibility to the market (see Moody's Ratings, 2025).

Another area where implementation clarity is crucial relates to the potential application of market caps and quantitative restrictions, especially for trading venues and exchanges that intermediate stablecoin transactions. Although MiCAR foresees caps and other restrictive measures as tools to mitigate financial stability risks, their operationalisation could raise practical questions, especially for the crypto exchanges. Clear guidance on how to monitor caps in real time, how breaches are identified, and how responsibilities are allocated among issuers, exchanges, and supervisors would reduce legal uncertainty and compliance costs. In particular, exchanges need predictable rules on when and how they may be required to suspend trading, limit transactions, or adjust market access, so that enforcement measures can be applied consistently and without disrupting market functioning.

#### Public-private sector collaboration

Finally, collaborative initiatives across the public and private sectors can play a key role in strengthening the financial infrastructure underpinning the future of finance. On the public side, the ECB has been exploring ways to connect TARGET Instant Payment Settlement, the Eurosystem's pan-European platform for instant payments in central bank money, operating 24/7 with immediate finality, to fast payment systems in other jurisdictions, including Malaysia, Singapore, and Switzerland, in cooperation with the Bank for International Settlements. By enhancing interoperability between domestic instant payment systems, this work could help establish critical infrastructure for more efficient cross-border payment and settlement.

In parallel, private-sector initiatives are advancing complementary market-based solutions. In late September 2025, SWIFT announced a partnership with Bank of America, Citigroup, and NatWest to develop a shared digital ledger for tokenised instruments, including stablecoins. The initiative aims to record, sequence, and validate transactions through smart contracts,

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<sup>67</sup> S&P assessed Tether's reserve quality and downgraded it to "Weak" in November 2025, citing an increase in higher-risk assets, such as bitcoin and gold, and persistent gaps in disclosure. <https://www.reuters.com/business/finance/tethers-stablecoin-downgraded-weak-sp-assessment-2025-11-26/>

facilitating interoperability between tokenised assets and existing financial market infrastructures. Similarly, the Depository Trust & Clearing Corporation has partnered with Digital Asset and the Canton Network to enable the tokenisation of assets held in custody by its subsidiary, Depository Trust Company, directly on the Canton Network. This collaboration follows the receipt of a US Securities and Exchange Commission’s no-action letter permitting DTC to launch and operate a service for the tokenisation of real-world assets held in its custody. Taken together, these initiatives illustrate how public infrastructure-led approaches and private innovation can evolve in parallel, potentially reinforcing one another in shaping the next generation of payment, settlement, and asset-servicing frameworks.

#### Enhancing international coordination

The case for stronger international coordination on stablecoin regulation is compelling, given both the risk profile of these instruments and their inherently global nature. Stablecoins raise a wide range of policy challenges, including anti-money laundering and countering the financing of terrorism compliance, risks to monetary sovereignty from foreign currency-denominated issuance, spillovers to reserve asset markets, sensitivity to monetary policy cycles, and increasing interconnectedness with the traditional financial system. As argued above, stablecoins interact with payments, capital markets, and monetary arrangements, rendering unilateral or purely domestic regulatory responses structurally insufficient. Against this background, MiCAR is widely recognised as a robust benchmark, particularly with respect to investor protection, reserve safeguards, and the preservation of monetary sovereignty, but its global effectiveness ultimately depends on how it interacts with regulatory regimes beyond the EU.

These challenges are amplified by the cross-border, fungible nature of stablecoins, which creates strong incentives for regulatory arbitrage in a fragmented international landscape. Divergent national approaches can be exploited through jurisdictional structuring, potentially undermining anti-money laundering and countering the financing of terrorism controls and amplifying financial stability risks. The debate surrounding multi-issuance arrangements, under which the same stablecoin could be jointly issued in the EU and third countries while remaining fungible across jurisdictions, illustrates this tension clearly. As detailed in Chapter 2, the ECB and the European Systemic Risk Board have clearly highlighted the associated risks – potential dilution of MiCAR’s prudential safeguards and fragmentation of reserve assets in the event of market distress. At the same time, a blanket prohibition of multi-issuance schemes would entail costs, potentially reducing the EU’s attractiveness for globally scaling issuers without preventing EU users from accessing such schemes outside the EU. Exploring potential regime equivalence with jurisdictions that apply a comparable level of regulatory stringency, as well as effective supervisory cooperation arrangements, could represent a useful legal option for the future.

This debate reflects a deeper trade-off between globally scalable financial innovation and a jurisdictional preference for tight risk containment, clear liability, and effective supervision. Such a trade-off strengthens the case for seeking an improved balance through international coordination. Coordinated approaches could help align anti-money laundering and countering the financing of terrorism standards, manage cross-border risks arising from reserve asset investment, and reduce instability associated with fragmented issuance structures. In this context, carefully designed equivalence or mutual recognition frameworks could play a constructive role, allowing MiCAR-licensed issuers more predictable access to foreign markets under clearly defined conditions, while preserving supervisory oversight and accountability.

Strengthening international coordination requires sustained engagement within global standard-setting fora. In particular, cooperation within the framework of the Bank for International Settlements, Committee on Payments and Market Infrastructures, and IOSCO is

critical to align regulatory approaches across jurisdictions, especially with respect to reserve asset safeguards, redemption arrangements, anti-money laundering and countering the financing of terrorism requirements, and the treatment of cross-border and multi-issuance schemes. Such alignment would help mitigate regulatory arbitrage and reduce the risks inherent in a globally fungible stablecoin market. At the same time, meaningful cooperation is increasingly difficult in the current geopolitical context, where strategic competition and divergent policy priorities constrain consensus-building at the global level. This should not, however, lead to a loss of confidence in international engagement. A pragmatic, incremental approach, starting with cooperation among like-minded jurisdictions on shared principles, supervisory practices, and interoperability frameworks, while gradually expanding participation, may offer a viable path forward. Over time, such ‘coalitions of convergence’ could help anchor global norms, even in a more fragmented international environment.

Stronger international coordination would also serve a positive strategic objective for the EU. Beyond risk containment, it could support the international use of the euro in the digital era, particularly in cross-border payments and remittances. Stablecoins offer a potential channel to extend the euro’s reach in corridors where traditional banking solutions remain costly or inefficient. By promoting MiCAR as a global reference framework and embedding it in cooperative international arrangements, the EU can both safeguard financial stability and enhance the international role of the euro. In this sense, international coordination on stablecoins is not only a defensive necessity, but also a strategic opportunity for Europe in the evolving digital monetary landscape.

## Chapter Conclusion

This chapter follows the comparative analysis of the EU’s MiCAR with the latest and prospective stablecoin regulations in other major jurisdictions and puts forward policy options to address some open challenges.

The EU’s regulatory framework, developed earlier as a response to a surge in private stablecoin initiatives, does not aim for the same high-level political and strategic objectives as those in more recent stablecoin regulations or proposed regulations, especially the US GENIUS Act. In addition, differences in financial systems – the share of bank financing for instance, the depth of government bond markets, payment infrastructures, and the prevalence of private fintech services all shape regulatory priorities and partly explain the heterogeneity of emerging regimes. These divergences are further compounded by the parallel debate on CBDCs, whose full-scale deployment to date remains largely confined to China, adding another layer of complexity to policy choices around private digital money.

At the current stage, taking a definitive stance on stablecoins remains challenging. Stablecoins present several risks, their adoption is still nascent, and, for the wider public, they have yet to demonstrate clear and broadly shared societal benefits. Against this backdrop, identifying economically and socially relevant use cases, such as in payments, remittances, or on-chain financial market infrastructures, will be critical in shaping the next phase of regulatory evolution. Further investigation and comparison with other forms of digital payment is needed. This chapter has pointed to some areas that warrant further consideration as the market and its applications mature.

While stablecoins raise legitimate and potentially significant financial stability concerns, the analysis also suggests that total inaction or complacency toward the status quo is not risk-free. A purely defensive posture could result in innovation migrating outside the EU, reducing Europe’s influence over global standards and weakening its voice in international regulatory debates – concerns that resonate with broader reflections on Europe’s competitiveness and

strategic autonomy, as emphasised in recent reports by Mario Draghi and Enrico Letta. The Draghi report on competitiveness<sup>68</sup> acknowledges that digital technologies – including those applied in the financial sector – are of strategic importance and that “the EU’s competitiveness will increasingly depend on the digitalisation of all sectors and on building strengths in advanced technologies, which will drive investment, job and wealth creation.”

In the same vein, the Letta report<sup>69</sup> states that “Europe needs to foster a favourable environment for digital innovation, to reduce dependence on digital services from third countries and to ensure that they are better adapted to the preferences of European citizens.”

Ultimately, stablecoin developments ought to be monitored within a broader, forward-looking discussion on the future of finance, in which tokenisation represents one important vehicle supporting that evolution. Such a discussion needs to encompass a co-existence between public and private payment instruments, and explicitly address issues of complementarity, interoperability, and the appropriate balance between fostering innovation and safeguarding financial stability. Framing stablecoins within this wider ecosystem perspective will be essential if the EU is to remain both resilient and relevant in the evolving digital monetary landscape.

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<sup>68</sup> See Draghi, M. (2024). The report notes that while the EU has a broad and diversified industrial innovation base, it is lagging behind in the field of digital technologies, including in respect of blockchain, mentioning the existing digital gap with respect to both the US and China.

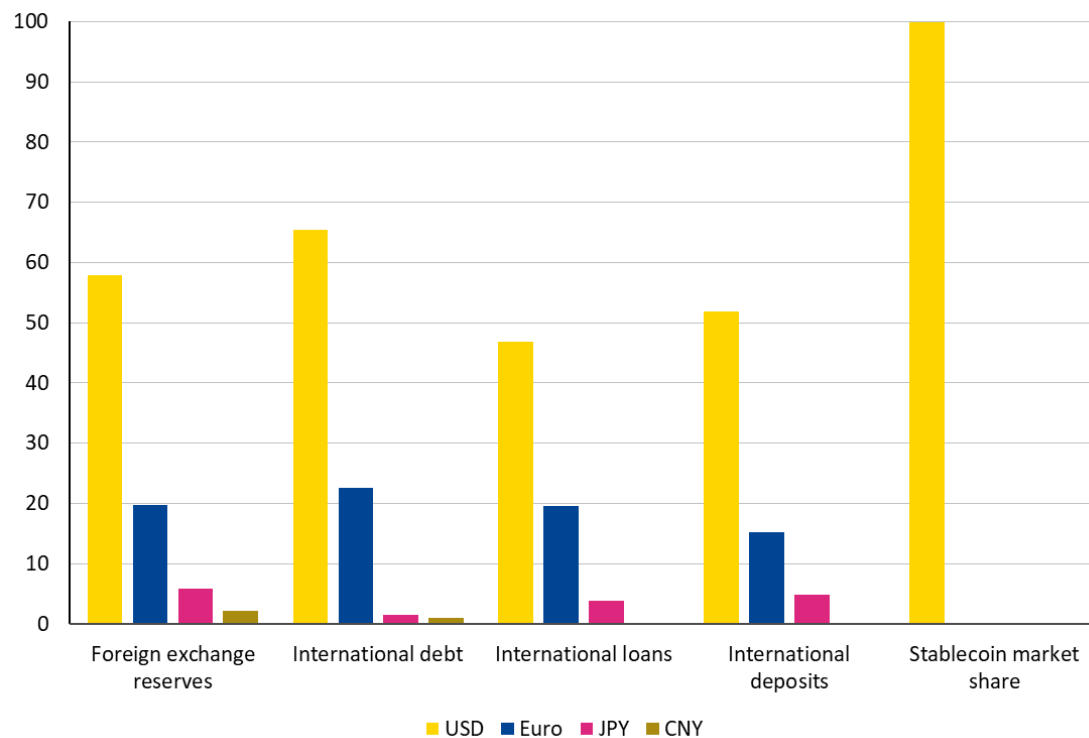
<sup>69</sup> See Letta, E. (2024). The Letta Report also acknowledges the digital euro as a potential solution: “Without a central bank digital currency supporting the European Single Market, the rise of new global systemic actors in the payment market risks marginalising European banks, disrupting their vital customer relationships, and weakening their overall competitiveness. Reliance on foreign entities compromises the system’s resilience, potentially exposing it to manipulation and disruption beyond the reach of European regulation”. It also emphasises that delays in the development of the digital euro may endanger EU strategy: “A digital euro must be a reality before 2027. Delays will only deepen the Single Market’s vulnerabilities and prevent Europeans from reaping the digital euro’s benefits – lower costs, increased competition, and a more resilient financial system.”

## **Conclusion – Reflections on Europe and the international monetary system in the stablecoin era**

The preceding chapters have examined the characteristics, risks, and regulatory design of stablecoins, as well as the position of the EU within the evolving global framework. While MiCAR establishes a comparatively robust regulatory perimeter, European participation in stablecoin issuance and euro-denominated use cases remains limited. According to CoinGecko data,<sup>70</sup> euro-denominated stablecoins count only 22 active issuers with a total market capitalisation close to USD 0.9 billion, compared with a global market that exceeds USD 300 billion, of which about 99% is pegged to the US dollar. Although the euro remains the second most important international currency in trade and finance, its presence in the stablecoin ecosystem is negligible, about 0.2% of the market, as shown in Figure 5.1.

Figure 5.1

**As the second international currency, the euro is for now absent from the stablecoin market**  
(in % of market share)



Notes: Except the stablecoin market, data are as of end 2024 from ECB (2025). The stablecoin market data come from CoinGecko are as of 5 January 2026.

Sources: ECB, CoinGecko, and author's depiction

This asymmetry has broader implications for the international monetary system. Some authors argue that stablecoin adoption can reinforce, at least for now, the current currency hierarchy in the international monetary system, with strong US dollar dominance (Aldasoro et al., 2026). Others argue that stablecoins introduce new instability related to the credibility of their stabilisation mechanism and the possibility for the US government to leverage stablecoin demand to expand debt financing (Benigno, 2025). Over a longer period, the US dollar's dominance could be further decline instead of being strengthened amid the new forces of digital finance and tokenisation (Rogoff, 2025; Eichengreen, 2026)

In fact, a rapid adoption of stablecoins globally may bring renewed relevance to the Triffin dilemma in the digital era.

On the one hand, the global expansion of US dollar-linked stablecoins may strengthen the

<sup>70</sup> See [https://www.coingecko.com/en/all-cryptocurrencies?filter\\_category=52](https://www.coingecko.com/en/all-cryptocurrencies?filter_category=52), accessed in 5 January 2026.

structural forces underpinning dollar dominance. Fiat-backed stablecoins promise par redemption into US dollars and hold reserves primarily in short-term US government securities. As a result, stablecoin growth translates into additional demand for US Treasury bills and related safe assets. The balance sheets of major issuers, as discussed in Chapter 2, already illustrate this channel. Stablecoins therefore extend access to US federal government debt through privately issued digital tokens, strengthening the role of US Treasury markets in global liquidity provision.

This dynamic interacts with well documented network effects in international currency use (Gopinath et al., 2020; Gopinath and Stein, 2021). The dominance of the US dollar in trade invoicing, safe asset markets, debt issuance, and foreign reserve management mutually reinforces itself. Now stablecoins further amplify these network effects, as they add a digital distribution layer to this ecosystem by providing round-the-clock, borderless access to dollar liquidity. Their attractiveness in emerging market economies, where they facilitate cross-border payments and access to US dollar-denominated assets, epitomises the strength of the US dollar in the digital era.

The policy context further bolsters this dynamic. The current US administration is the only major jurisdiction that has explicitly adopted the promotion of stablecoin issuance as a means of “driving demand for US Treasuries” and strengthening the “continued global dominance of the US dollar as the world’s reserve currency”.<sup>71</sup>

On the other hand, the international role of the US dollar is not without vulnerabilities, and a rapid expansion of stablecoins, particularly in an environment of fragmented or uneven regulatory oversight, could introduce new risks that would weigh on the credibility and safety of US dollar-denominated tokens. Stablecoins are not immune to run dynamics, and as the market expands and major issuers become increasingly significant participants in US Treasury markets, disruptions or doubts surrounding redemption mechanisms could be transmitted rapidly to Treasury markets, with implications for safe-asset prices and yields (Ahmed and Aldasoro, 2026).

Even when stablecoins are not the original source of financial stress, they may amplify shocks during periods of market turbulence. Empirical evidence suggests that stablecoin holdings and issuance have so far exhibited procyclical behaviour (Ferrari Minesso and Siena, 2025; Gross and Senner, 2026). With further market expansion, this could lead to large fluctuations in demand for short-term US government securities, especially when rebalancing to other US government securities-backed financial instruments, such as money market funds, could no longer absorb the redemption volume of stablecoins. In stressed conditions, large-scale redemptions or portfolio reallocations by stablecoin issuers could therefore contribute to volatility in US Treasury markets rather than dampen it. The procyclical nature of stablecoins could further weaken the safe haven nature of the dollar and US government securities.

The fast expansion of stablecoins could also weaken the macrofiscal fundamentals that underpin the attractiveness of US dollar assets. A sustained increase in the stocking of Treasury bills through stablecoin issuance could, in principle, support federal government debt expansion, as desired by the US Treasury, but it could at the same time weaken long-term debt sustainability, the foundation of the US dollar’s global value and attractiveness. When Moody’s Rating downgraded the US to Aa1 from Aaa in May 2025, it listed a persistent increase in, and high levels of, government debt and interest payment ratios compared to other similarly rated sovereign governments as the primary motivation for its rating action.<sup>72</sup>

<sup>71</sup> See the White House fact sheet accompanying the introduction of the GENIUS ACT: <https://www.whitehouse.gov/fact-sheets/2025/07/fact-sheet-president-donald-j-trump-signs-genius-act-into-law/#:~:text=President%20Trump%20promised%20to%20make,States%20leadership%20in%20digital%20assets.>

<sup>72</sup> See [Ratings.Moodys.com/ratings-news/443154](https://www.moodys.com/ratings-news/443154).

Here lie the core tensions revealed in the dilemma first formulated by the Belgian American economist Robert Triffin in the 1960s: between, on the one hand, the willingness and capacity of the US to provide dollar-based global liquidity, through traditional and tokenised means, and, on the other hand, the US's credibility in maintaining the value of the dollar, rooted in its fiscal sustainability.

In this digital finance era, the source of risks stemming from the Triffin dilemma share some similarities but also show some particularities compared with the original Triffin dilemma formulated in the 1960s, and the extension of it in the 2000s up to the onset of the global financial crisis.<sup>73</sup> The defining question is about who is providing global dollar liquidity, and on whose balance sheet the tensions would ultimately end up.

In its original formulation, the Triffin dilemma captured the US government's role as the supplier of international liquidity through its commitment to maintain the dollar's convertibility into gold at a fixed rate and the tensions therein that show up on the US government's balance sheet. In fact, to provide sufficient reserves to support a growing world economy, the US had to run balance-of-payments deficits, accumulating liabilities vis-à-vis foreign official holders. And ultimately the tensions led to a shortage in US gold reserves and the collapse of the fixed exchange rate-based Bretton Woods system. As Triffin (1961) anticipated, global liquidity demand outpaced the increase in the US's gold reserves and broke confidence in the dollar-gold link, culminating in the suspension of gold convertibility in 1971.

In the post-Bretton Woods era, the international role of the US dollar not only persisted but expanded. Under a regime of floating exchange rates, global demand for US dollar-denominated safe assets increased alongside financial globalisation and the integration of emerging market economies into international trade and capital markets. The US effectively assumed the role of "world banker" or "world insurer" (Rey, 2019). Yet during this period, international dollar liquidity was provided by the US government not only in the form of Treasury securities but also through other quasi-fiscal and private dollar assets (Bini Smaghi, 2011), such as US agency debt, cross-border bank loans, and offshore US dollar bond issuance (Pradhan et al., 2026). Compared to Triffin dilemma 1.0, where the dollar-gold link put direct pressure on the US government's balance sheet, the original constraint was replaced by a fiscal and financial one in Triffin 2.0 – confidence in the dollar increasingly hinged on the depth and stability of US dollar asset market, and ultimately on the sustainability of US public finances to safeguard the whole financial system.

The emergence of stablecoins could again reshape the dynamics of the tensions stemming from the Triffin dilemma. Stablecoins could provide an additional layer of private dollar liquidity provision, making the digital-era Triffin dilemma similar to the post-Bretton Woods 2.0 version. However, stablecoins do not create new net US dollar liquidity independently of the US government. There is a mechanical linkage between holding a fully backed stablecoin and holding a tokenised claim on the US federal government. And, as discussed in Chapter 2, stablecoins could also be a more unstable form of private dollar liquidity, vulnerable to runs that could risk amplifying disturbances to the US Treasury market. Therefore, in a scenario where the stablecoin market grows much bigger and crowds out other private dollar liquidities, the world could face a Triffin dilemma very similar to the 1.0 1960s model, where the US government would need to shoulder the tensions from additional dollar liquidity demand directly on its own balance sheet.

From a systemic perspective, stablecoins neither resolve nor fundamentally transform the dilemma inherent in the provision of a global reserve currency. Instead, they reconfigure it by

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<sup>73</sup> For a review of Triffin dilemma 1.0 and 2.0, refer to Triffin (1961), Gourinchas and Rey (2007), Farhi et al. (2011), Obstfeld (2011), Bini Smaghi (2011), and Farhi and Maggiori (2018).

amplifying access to dollar liquidity while potentially intensifying the feedback loops between private intermediation and public balance sheets. This could be a particular risk point for the stability of the international monetary system in the future. The world is thus facing a new version of the Triffin dilemma, likely in between Triffin 1.0 and 2.0, where the dilemma will lead depends very much on the ultimate volume of US dollar-linked stablecoins issued globally.

In fact, building on Rey's (2019) characterisation of the US as a "world banker" and "world insurer", supplying risk-free, liquid dollar liabilities to the rest of the world while investing in riskier foreign assets, recent evidence already suggests that the US capacity to provide global safe assets has begun to plateau, particularly since the Covid-19 pandemic (Figure 5.2). This development partly reflects portfolio diversification by some emerging market central banks toward non-dollar assets, including gold. The gold price surge since 2024 was largely attributed to central bank purchases, reflecting the demand for alternative safe assets amid heightened geopolitical tensions and numerous military conflicts. Against this backdrop, it becomes critical to assess whether the continued expansion of stablecoins will reverse this trend by reinforcing demand for US safe assets or, instead, accelerate the erosion of the US's position as the pre-eminent global safe asset provider.

**Table 5.1**  
**Different times, different Triffin dilemmas**

	<b>Triffin 1.0</b>	<b>Triffin 2.0</b>	<b>Triffin with stablecoins</b>
<b>Historical context</b>	<b>Bretton Woods system</b>	<b>Post-Bretton Woods era</b>	<b>Digital finance era</b>
Exchange rate regime	Fixed USD-gold parity	Floating exchange rates	Floating exchange rates
Source of global liquidity	US public sector	US public sector + offshore private banking/bonds	US public sector via private digital wrappers if stablecoin adoption accelerates
Key innovation/trigger	USD-gold convertibility	Eurodollar banking; financial globalisation	USD-pegged stablecoins
Nature of international money	Official reserve currency	Official and private dollar system	Reserves + tokenised claims on public dollar assets
Underlying constraint	Finite US gold reserves	US fiscal capacity and financial stability	US fiscal capacity and regulatory credibility
Core Triffin tension	Rising global demand for dollars vs gold convertibility	Rising global demand for safe dollar assets vs US fiscal sustainability	Rising global demand for safe dollar assets vs US fiscal sustainability/stablecoin disturbance in US Treasury market
Role of private actors	Limited	Central (offshore dollar creation)	Central but with links back to US Treasury bills
Main reserve assets demanded	Gold and short-term US Treasuries	US Treasuries and agency debt	US Treasury bills and repos
Systemic risks	Collapse of convertibility	Global financial cycles; banking crises	Run risk on stablecoins; pressure for public backstops

Source: Author

What does a new Triffin dilemma imply for Europe and for the role of the euro in the international monetary system? For Europe, this implies a need for a pragmatic and forward-looking response. Attempts to restrict or ban USD-linked stablecoins within the EU would be unlikely to prevent their use in emerging market and developing economies, where demand is driven by remittances, access to dollar liquidity, and by hedging against domestic macroeconomic instability. Such measures could therefore have limited effectiveness while

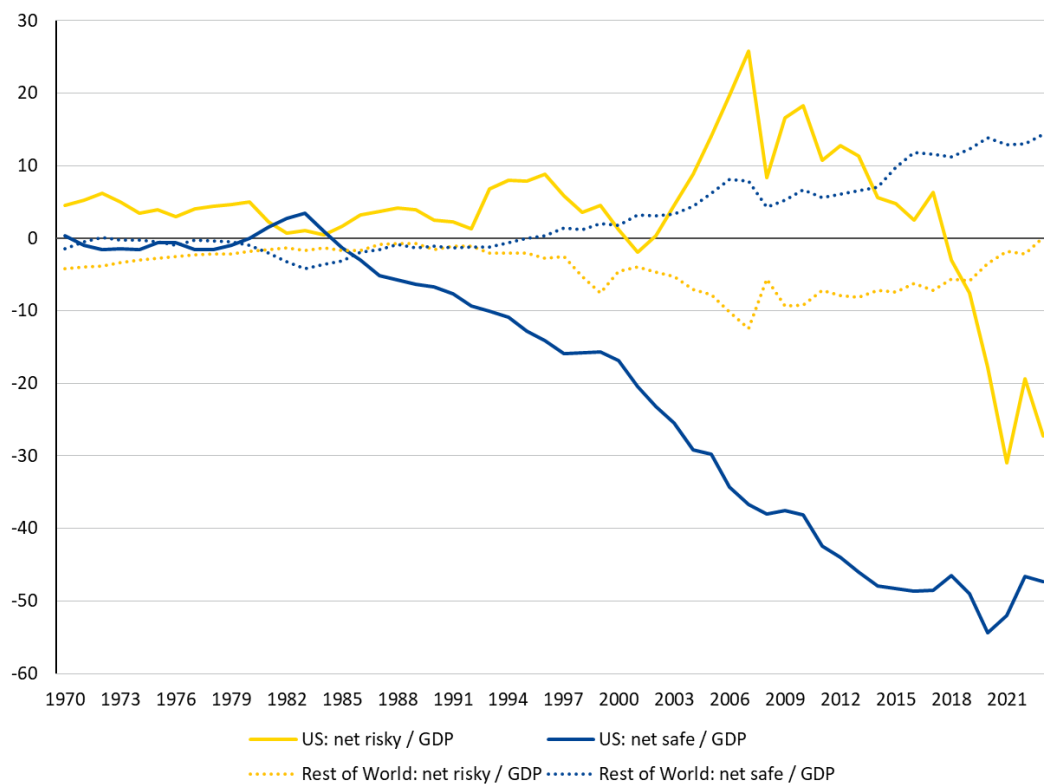
reducing Europe’s influence over an evolving segment of the international monetary system.

Europe’s strategic objective should, rather, be to adapt to the new reality by reducing vulnerability to potential disruptions and not by seeking to displace the dollar’s dominance. Strengthening Europe’s payment, settlement, and market infrastructure, particularly for cross-border euro-denominated transactions, could serve as an important diversification safeguard. This would include enhancing the efficiency and resilience of existing euro payment systems, supporting economically justified use cases for euro-denominated digital settlement assets, and ensuring that regulatory frameworks adequately capture the systemic risks posed by foreign-currency stablecoins.

Euro-linked stablecoins, while unlikely to rival US dollar-denominated stablecoins at the global level, could play a complementary role in facilitating remittance transfers and investment flows involving the euro area. By focusing on specific cross-border use cases where the euro already has a natural economic footprint, Europe can strengthen the functional role of the euro without overestimating its capacity to reshape the global monetary hierarchy.

Overall, the rise of stablecoins underscores that technological innovation alone does not alter the fundamental asymmetries of the international monetary system. Facing the new Triffin dilemma, the challenge for Europe is not to contest dollar dominance, but to preserve monetary sovereignty and financial stability by reinforcing its own monetary and financial infrastructure, while remaining prepared for a more digitally mediated and privately intermediated global liquidity landscape.

**Figure 5.2**  
**A weakening of the US’s role as a world bank and world insurer**  
(in %)



Notes: Net risky position = portfolio equity assets + FDI assets - (portfolio equity liabilities + FDI liabilities). Net safe position = reserve assets + debt assets - debt liabilities. Debt includes portfolio debt and other investment. Both positions are summed for all countries of each group, US and Rest of the World, and normalised by the gross domestic product (GDP) of the group in the given year.

Sources: Rey (2019), Lane and Milesi-Ferretti (2018), Milesi-Ferretti (2026), and author’s calculations

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# Acronyms

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ARTs	Asset-referenced tokens
CASPs	Crypto-asset service providers
CBDC	Central bank digital currency
CNY	Chinese yuan
DLT	Distributed ledger technology
ECB	European Central Bank
EU	European Union
EMTs	E-money tokens
GBP	Great British pound
GDP	Gross domestic product
GENIUS Act	Guiding and Establishing National Innovation for US Stablecoins Act
HKD	Hong Kong dollar
IOSCO	International Organization of Securities Commissions
JPY	Japanese yen
MiCAR	Markets in Crypto-Assets Regulation
MMMFs	Money market mutual funds
UK	United Kingdom
US	United States
USD	United States dollar