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Presidency Note

The usage of stablecoins, including their key features and economic functions

Key features and uses

Stablecoins are private digital money pegged to a fiat currency, most commonly the US dollar (98% of them are denominated in US dollars). Their main use to date has been to support crypto-asset trading, effectively acting as 'cash' in the crypto-asset ecosystem. Stablecoins are starting to be used as a means of making cross-border payments, as they can bypass some frictions in conventional payment rails. Proponents contend that they are cheaper and faster than bank transfers. Stablecoins can also provide individuals and firms access to foreign currencies, particularly in emerging market and developing economies with weak macroeconomic fundamentals such as high inflation or capital controls.

In spite of doubling in size between 2024-25, stablecoin market capitalisation remains small. As of May 2026, their global capitalisation was around $320 billion. Nearly 90% of all stablecoins are issued by Tether and Circle, based in El Salvador and the US respectively. While stablecoin transaction volumes seem large – some $35 trillion annually in 2025 – their real economy use is modest. According to some estimates, payment flows in 2025 were around $390 billion, representing a tiny fraction of relevant global volumes. The adoption of comprehensive regulatory frameworks, on their own, has not generally led to greater stablecoin use thus far, as the experience of Japan and the EU demonstrates. Indeed, the strongest growth has been by Tether's USDT, which does not comply with the stablecoin laws of major jurisdictions.

From a technological point of view, stablecoins are so-called 'digital tokens' that circulate on public, permissionless distributed ledger technology (DLT) networks such as blockchains. Given this, they can potentially play a role as a settlement asset in a future tokenised financial system,[1] in which financial assets are issued, traded, and relevant transactions are settled, on DLT networks. Although tokenised central bank money, when available, will be the safest and most liquid settlement asset, private settlement assets – such as tokenised deposits or stablecoins – are also expected to play a role, as is currently the case with commercial bank money in traditional finance. Stablecoins, however, vary significantly from tokenised deposits: the former are a digital token (often issued by non-banks)

[1] Tokenisation is the process of issuing or representing assets in the form of digital tokens, which are typically recorded on blockchains. One of the main benefits of such a system is that transactions can be programmable (i.e. they encode rules that execute automatically when predefined conditions are met) and settled atomically (i.e. delivery and payment occur simultaneously, eliminating counterparty risk) on a 24/7 basis.

that seek to maintain a stable value by having a collateral reserve of liquid low-risk assets, while the latter are digital representations of traditional deposits and redeemable at par at the issuing bank.

The risk of infrastructural dollarisation

From an EU perspective, tokenisation can enhance the efficiency and integration of European capital markets and thereby increase their scale and foster productive investment and growth, in line with the objective of the Savings and Investments Union. In this context, an issue to consider is the role that private settlement assets should play – in addition to tokenised central bank money – to safeguard monetary sovereignty and ensure the resilience, integration and competitiveness of the European financial system in the digital era.

Euro-denominated stablecoins and tokenised deposits remain at an early stage of development. By contrast, dollar-denominated stablecoins have, through first-mover advantage and network effects, become the default settlement asset in crypto-asset trading. The US administration is taking steps to promote their further growth, including in tokenised finance, describing stablecoins as a tool to ensure "the continued global dominance of the US dollar" and to cement demand for US Treasuries. A key question here is whether stablecoins become the default private settlement asset for tokenised securities and digital infrastructures as well – and if so, whether USD stablecoins will dominate this market as well. If this is the case, then Europe may need to respond by promoting euro-denominated stablecoins of its own to avoid 'infrastructural dollarisation'. This would imply taking further measures to enhance the appeal of euro-denominated stablecoins by, for example, increasing their market liquidity and by easing their regulatory treatment in Markets in Crypto-Assets Regulation (MiCAR), which is the currently applicable EU regulatory framework for stablecoins.

On the other hand, it is worth pointing out that stablecoins (whether dollar- or euro-denominated) have certain structural weaknesses if used as the private settlement asset of a tokenised financial system. First, unlike bank transfers, stablecoin transactions do not settle on the central bank's balance sheet – so payments at par are not assured. This exposes stablecoins to run risk from redemption pressures that can also lead to fire sales of assets included in stablecoin reserves, particularly where issuers are non-banks. Multi-jurisdictional issuer schemes[2] add a further layer of vulnerability, as investors will seek to redeem where protections are strongest and exit fees lowest – which is likely to be the EU, even though the reserves held in the EU may not be sufficient to meet such demand. Second, stablecoins operate on public permissionless blockchains, which create interoperability challenges and operational risk concerns. Third, if firms and households shift from bank deposits to stablecoins at scale (disintermediation), banks would increasingly rely on costlier and potentially less stable wholesale funding. Banks might pass on the higher funding costs to borrowers through higher lending rates, and the supply of bank credit might fall. More generally, stablecoin growth could

[2] Such schemes occur where an EU (MiCA authorised) entity and a third-country entity of the same stablecoin issuer issue in parallel seemingly identical stablecoins, in legal and economic terms, under two different legal regimes resulting in the tokens being fungible and thus indistinguishable across both jurisdictions.

impact financial integrity, monetary policy and fiscal policy in ways that are still being analysed by authorities.

Even more important, however, is to take an ambitious and holistic approach by ensuring that public infrastructure enables alternative instruments – whether stablecoins, tokenised deposits or other yet-to-emerge alternatives – to operate within an interoperable tokenised framework anchored by central bank money. When such infrastructure is available, market participants may have little reason to rely on a foreign currency-denominated private settlement asset. In this respect, MiCAR, together with the DLT Pilot Regime[3] and the Eurosystem's work toward enabling the use of central bank money for settlement on DLT,[4] already lay the groundwork for harmonised rules in the digital finance space and make Europe among the first jurisdictions to establish a comprehensive framework for tokenised assets. Given this, the concerns about 'infrastructural dollarisation' – and the related need to take additional policy measures to promote euro-denominated stablecoins – may not be as relevant.

Questions for discussion:

1. *Which of the risks related to stablecoins outlined in the Note are the most material?*
2. *Should any policy initiatives be considered to address those risks, in addition to those already underway by the EU Commission (revision of DLT Pilot regime) and the Eurosystem (Pontes and Appia projects)? If so, what are the main priorities and trade-offs to consider?*
3. *How could stablecoin developments affect the broader financial system going forward, including interactions with banks, payment & settlement systems, and market structure?*

[3] The EU DLT Pilot Regime is a regulatory framework that allows market infrastructures to test DLTs for trading and settling tokenised financial instruments, such as shares and bonds. As part of the Market Integration and Supervision Package (MISP) proposal currently under negotiation, the review of the DLT Pilot regime will expand its scope (in terms of types of eligible participating entities and of eligible tokenised financial instruments) and raise eligible activity thresholds to facilitate the uptake of DLT-based financial markets.

[4] This includes the Pontes project that will enable DLT-based transactions to settle in central bank money; and the Appia roadmap that sets out the path to a fully interoperable, European, tokenised financial ecosystem by 2028.