The rise of stablecoins: what effects can be expected on US government bonds and the financial stability of emerging economies?

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Confidential

Summary

The stablecoin market has experienced exponential growth over the past five years, reaching a capitalization of more than USD 250 billion in 2025 and recording over USD 8.3 trillion in transactions over the past twelve months. Their success lies in the combination of blockchain technology's advantages—speed, ease of use, and low transaction costs—with the stability and reliability of traditional currencies.

The U.S. GENIUS Act ("Guiding and Establishing National Innovation for US Stablecoins"), enacted in July 2025, constitutes the first unified legal framework in the United States to regulate stablecoins. This legislation establishes a supervisory mechanism for issuers and defines a list of regulated reserve assets, composed of U.S. dollars, Treasury securities, and derivatives.

As more than 90% of circulating stablecoins are pegged to the U.S. dollar, this law seeks to channel the growth of these digital currencies into reinforcing the dominance of the greenback while boosting demand for U.S. government bonds. Stablecoin capitalization is projected to surpass USD 1 trillion by 2030, thereby providing "a new strategic demand channel" (Scott Bessent) for U.S. Treasury securities. In a conservative scenario, the additional demand for U.S. debt securities linked to stablecoin issuance would represent about 10% of the increase in public debt outstanding between 2025 and 2030, or roughly 2.5% of the total stock of public debt. However, this expansion entails significant risks, including the concentration of U.S. debt securities, increased bond market volatility, and systemic risk in the event of a run.

For residents of emerging economies, the spread of stablecoins offers many benefits, as reflected in their growing adoption in recent years. Backed by stable assets (particularly the dollar), they provide a hedge against inflation and currency risk: 47% of stablecoin users in emerging markets use them to save in dollars. In addition, they speed up transfers and facilitate remittances by reducing costs.

Nevertheless, their widespread use is not without risk for governments in emerging economies, which could see them partially substitute for their national currency, thereby reducing the room for manoeuvre of monetary authorities and seigniorage revenues. Furthermore, by restricting the scope of oversight by authorities and escaping systemic supervision, stablecoins could pose risks to countries' financial stability. Finally, through crowding-out effects and by forcing traditional banks to increase their liquid asset reserves, they may constrain credit supply and thus investment in the economy.

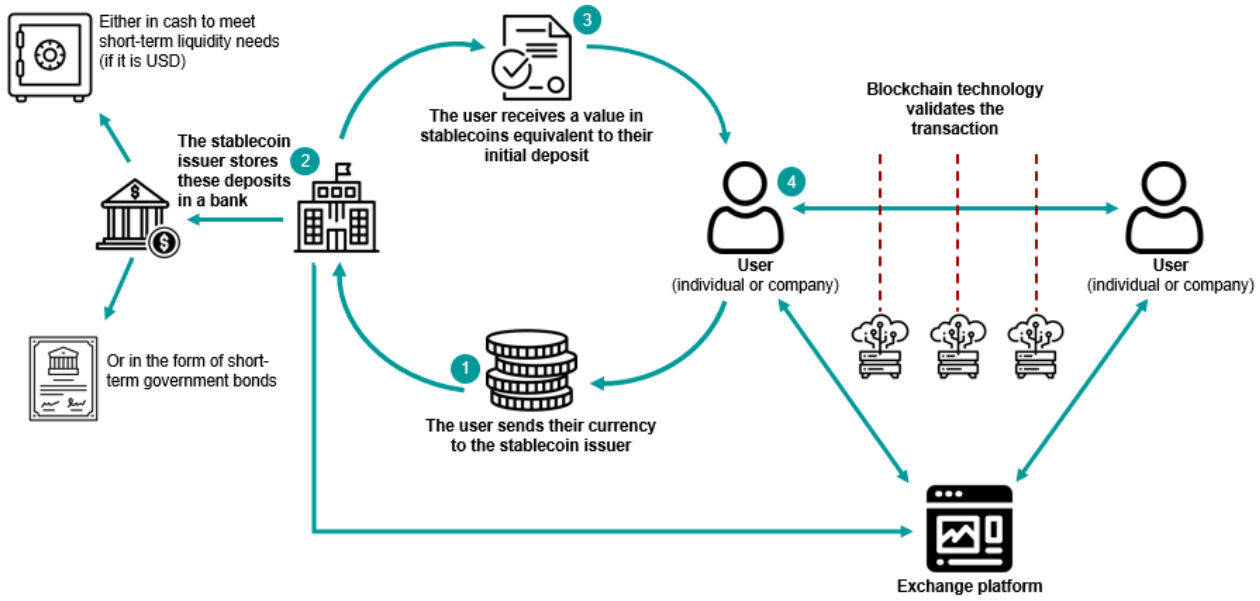
1. Stablecoins, an exponentially growing payment technology

1.1. In theory, stablecoins combine the flexibility of digital currencies with the stability of fiat currencies

Stablecoins are digital assets issued by financial intermediaries designed to maintain a value pegged to one or more underlying assets, in most cases a currency issued by a central bank. For each stablecoin, the issuer commits to holding a certain amount of liquid collateral assets so that the stablecoin retains equal value and convertibility with the underlying asset. Stablecoin transactions are carried out on a blockchain, which is a decentralised digital registry that records the history of transactions. The most commonly used blockchains for stablecoins are Ethereum (55.5%[1]), Tron (34.88%) and Solana (5.21%).

Stablecoins can be divided into three categories according to their underlying asset types. More than 90% of them are pegged to the value of a **currency**. The dollar is the underlying asset for 99.5%[2] of this type of stablecoin. These maintain a value equal to the reference currency by holding a quantity of currency or liquid assets in reserve, usually at a 1:1 parity. Stablecoins can also be backed **by baskets of cryptocurrencies or physical commodities,** such as gold. The issuer then holds reserves in excess of the total value of the coins issued to cope with the volatility of its reserve assets. Finally, a few stablecoins (0.1% of the total stablecoin capitalisation) are based on **algorithms** that automatically adjust the money supply in response to changes in demand to maintain a constant price.

Figure 1 - Stablecoin flows



Sources: Global X, Fintech Futures

Users exchange their traditional currency for stablecoins via a platform or directly with an issuer. The issuer places user deposits in reserve. For most stablecoins, this collateral reserve consists of traditional currency deposits or secure, liquid assets (such as debt securities). Users then use their stablecoins for interpersonal transfers, to pay directly for goods or services, or to keep them as savings in a digital wallet. Users have the

[1] Overview | Visa Onchain Analytics Dashboard
[2] September 2025, Stablecoins Circulating - DefiLlama, *DefiLlama*

option of converting these stablecoins back into the currency of their choice by selling them back on a platform or directly to the issuer (see Figure 1).

The main difference between stablecoins and other digital tokens, such as Bitcoin or Solana, lies in their stability. While the supply of other digital tokens grows at a continuous and independent rate, and their prices vary according to the intensity of demand, stablecoin issuers issue a new token for each new token request. As a result, changes in request do not affect the price of stablecoins, which remain pegged to the underlying asset. Thus, unlike decentralised crypto assets, stablecoins appear to be able toof fulfilling the three functions of money: unit of account, store of value and medium of exchange.

***Central bank digital currencies (*CBD*Cs*) and *deposit tokens* also differ from stablecoins in several ways**. CBDCs, such as the Brazilian central bank's PIX currency or the European Central Bank's digital euro project, are digital currencies issued and regulated by a central bank. Unlike stablecoins, CBDCs are based on centralised registry technology, with the central bank remaining the intermediary for transactions.

Tokenised deposits are digital assets issued by banks and backed by bank deposits. The amount of tokenised deposits an individual has is therefore equal to the amount of money deposited in their account. The main differences between stablecoins and these two digital assets are the absence of an intermediary in transactions (carried out via a decentralised blockchain), the nature of the issuer, which may be a non-banking entity, and the possibility for stablecoins to be backed by assets other than fiat currency or central bank reserve currency.

Stablecoin technology offers significant advantages over traditional payment systems. Stablecoin transactions are carried out instantly at very low cost, particularly for international payments. Unlike traditional transactions, which involve paying the banking intermediary and currency conversion fees, stablecoin payments are free from location and currency constraints. The blockchain, which serves as a payment registry, is maintained by "miners" who use their computers' processing power to store and verify transactions and are paid for this work in digital currency (Bitcoin, Solana, Ethereum, etc.). **However, there is an indirect cost involved in converting stablecoins into fiat currency, which requires an intermediary.** In addition, stablecoin transactions can be carried out at any time, any day of the week. The significant increase in stablecoin transaction volumes at weekends compared to weekdays demonstrates the comparative advantage of stablecoins' unrestricted operation.

These advantages, which combine the accessibility and flexibility of digital currencies with the stability of traditional currencies, open up a wide range of possible uses for stablecoins in payments, international transfers and savings. Their main current use as a medium of exchange is mainly restricted to decentralised finance, where digital assets (ETFs, tokenised assets, Bitcoin, etc.) are traded in stablecoins. **Stablecoins can also facilitate international fund transfers that are subject to high transaction costs when carried out by traditional banks, money transfer operators or mobile operators.** Finally, **stablecoins offer easy access to a stable asset that is not subject to local currency inflation and can therefore serve as a store of value** (see section 3).

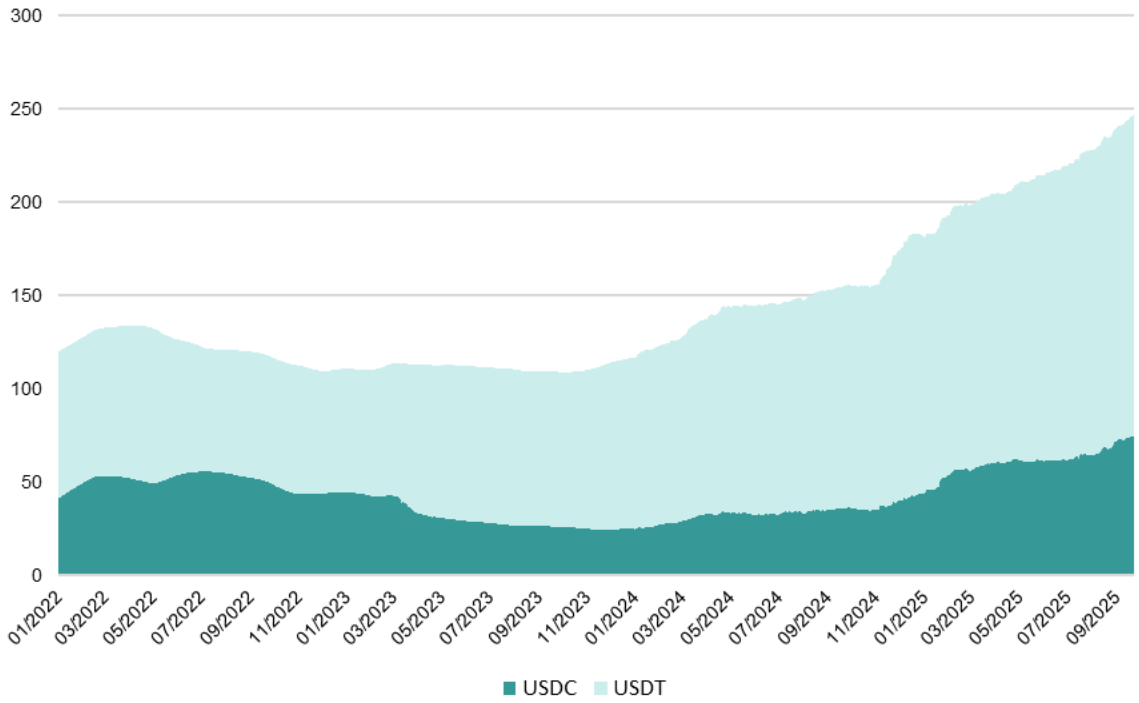
1.2. The total capitalisation of stablecoins in circulation has increased by 124% over the last 24 months.

The total capitalisation of stablecoins has increased fifteenfold in five years, from USD 18 billion in September 2020 to USD 259 billion in September 2025, representing an average annual growth rate of nearly 71%. Almost 94%[3] of the total market capitalisation is concentrated between two issuers: Tether and Circle. The former issues USDT (United States Dollar Tether), the first stablecoin, which alone accounts for 65.7% of the market. The latter issues USDC (United States Dollar Circle), capitalised at 72.8 billion USD, or 28.15% of the total market capitalisation. Currencies benefit from significant network externalities: the more a

[3] Stablecoins Circulating - DefiLlama, *DefiLlama,*

currency is used, the lower its cost of use and the more convenient it becomes to use[4]. The stablecoin market is following a trend towards concentration, with third-party players such as Binance's BUSD experiencing a sharp decline compared to Tether and Circle over the last three years.

Figure 2. Total capitalisation of Tether (USDT) and Circle (USCD) stablecoins, in billion USD



Source: *Bloomberg*

The stablecoin market is expected to continue its strong expansion in the coming years, driven by new regulations and the democratisation of decentralised finance. While forecasts vary among observers, there seems to be a consensus that the total market capitalisation of stablecoins will exceed **USD 1 trillion by 2030**. Research by J.P. Morgan forecasts a total capitalisation of between USD 500 billion and USD 750 billion by 2028, while Citi Group anticipates a market of USD 1.4 trillion in 2030. If market growth continues at the same pace as in 2024 and 2025 (average annual growth rate between September 2023 and September 2025 of 49.6%), total capitalisation could reach nearly USD 2 trillion. Furthermore, the total capitalisation of stablecoins currently represents only around 0.2% of global bank deposits (USD 117 trillion in 2024, according to McKinsey[5]). If, in the future, 2% of global deposits are made in the form of stablecoins, total capitalisation could rise to more than USD 2.3 trillion.

Currently oriented mainly on decentralised finance services, the use of stablecoins is set to intensify and expand. The total value of stablecoin transactions over the last 12 months was USD 8.3 trillion[6], representing an increase of 58% over the period. Similarly, the number of transactions increased by 35% over the year. The total number of stablecoin users worldwide (addresses that have received or sent stablecoins

[4] emergence of the euro as an international currency | Economic Policy | Oxford Academic, *OUP Academic,* 01/04/1998
[5] McKinsey's Global Banking Annual Review 2024 | McKinsey, *McKinsey & Company,* 17/10/2024
[6] Adjusted measure excluding transactions that do not correspond to genuine person-to-person payments, such as high-frequency trading or bot activity. Transactions | Visa Onchain Analytics Dashboard.

on the blockchain over the last 12 months) has grown from 1 million to nearly 300 million in less than five years, representing approximately 15% of the total number of non-resident dollar users.

1.3. However, the use of stablecoins is restricted by several risks and limitations.

The use of stablecoins remains hampered by a lack of confidence in the reliability of issuers. In May 2022, the collapse of the algorithmic stablecoin Terra Luna (UST) threw a deep mistrust in stablecoins. UST operated through a mechanism of issuing and destroying an associated digital currency (LUNA) : if UST fell below $1, users could convert UST to LUNA and vice versa. A massive conversion of UST to LUNA caused LUNA to spiral into inflation and UST to collapse, losing its peg to the dollar and wiping out approximately $60 billion in value.

In March 2023, USDC (Circle), a stablecoin backed by liquid asset reserves, also experienced a major event involving the loss of its peg to the dollar. Following Circle's announcement that $3.3 billion of the reserves guaranteeing USDC were frozen in Silicon Valley Bank (SVB), which had just gone bankrupt, USDC fell sharply to $0.88. This fall had repercussions on other digital assets and stablecoins that relied on USDC for their collateral. The FDIC's intervention to guarantee Silicon Valley Bank deposits restored confidence in USDC collateral and parity with the dollar.

These incidents highlighted several limitations: the risk of concentrated reserves, the fragility of the peg, and the intensity of the vicious circle that a loss of confidence can cause. Stablecoin issuers therefore turn to independent audits and transparent communication about their reserves, but the lack of a developed regulatory framework and dedicated regulatory institutions undermines their credibility.

Furthermore, the anonymous nature of blockchain transactions makes digital currencies a preferred asset for illicit activities. It is estimated that a substantial portion of cryptocurrency activity results from money laundering, tax evasion, illegal financing, and the circumvention of sanctions. This anonymity is an obstacle to the legitimisation and therefore wider adoption of stablecoins.

Paradoxically, it is therefore the quasi-absence of regulation that has so far hindered the widespread use of stablecoins.

2. The GENIUS Act: putting stablecoins at the service of the hegemony of the dollar and US government bonds

2.1. The GENIUS Act establishes a dedicated framework for stablecoins and thus works towards their legitimisation

The US GENIUS Act (*Guiding and Establishing National Innovation for US Stablecoins*), enacted in July 2025 and coming into force before January 2027, establishes the first unified legal framework for the issuance of stablecoins and a list of eligible reserve assets.

First, the GENIUS *Act* regulates stablecoin issuers through a dual oversight system. Only subsidiaries of insured depository institutions (banks and credit unions authorised by the FDIC or NCUA) and federally approved non-bank entities are authorised to issue stablecoins. Issuers with a stablecoin capitalisation of less than USD 10 billion are supervised at the state level, while stablecoins with a capitalisation exceeding this threshold fall under federal regulation. This dual regulation aims to promote innovation and regulatory flexibility for new entities while applying special oversight of systemic risks for stablecoins with significant capitalisation.

The law draws up a list of regulatory reserve assets, all linked to the dollar and US bonds. Issuers must maintain a **minimum reserve parity of 1:1**: each stablecoin issued must be backed by reserves of equivalent value. These reserves may be held in the form of: US dollar coins and banknotes, demand deposits held in

regulated institutions, US Treasury bills with a residual maturity of 93 days less, *repurchase agreements*[7] with a maturity of 7 days or less and guaranteed by Treasury bills, reverse repo agreements with a maturity of 7 days or less and collateralised by Treasury securities, money market funds invested solely in the aforementioned assets, or deposits with the Federal Reserve. Issuers must regularly publish the composition of their reserves and undergo regular audits by approved accounting firms.

The law **guarantees stablecoin users a right of redemption.** This right takes absolute priority in the event of bankruptcy, thus guaranteeing users access to their funds.

Finally, it prohibits issuers from paying interest on stablecoin balances. This measure aims to guarantee that the returns generated by short-term Treasury bills are used to maintain daily liquidity rather than to encourage excessive risk-taking.

As reflected in its adoption by a two-thirds majority in the US Congress, **the GENIUS Act is a bipartisan compromise between protection and innovation, as well as between decentralisation and regulation**. In January 2025, one of the first executive orders of the Republican administration aimed to "promote the development and growth of legal and legitimate dollar-backed stablecoins on a global scale"[8] (Donald Trump's presidential decree on digital assets, January 2025). The GENIUS Act reflects this desire while addressing Democrats' concerns about consumption protection and financial crime. The law also has the support of the industry, with a dual regulatory system that grants decentralised state flexibility to start-ups and federal legitimacy to established players. Furthermore, although traditionally averse to central bank control, industry players see the widespread use of stablecoins as a way to bring digital currencies into everyday use and thus democratise decentralised finance.

In short, the GENIUS Act addresses several limitations of stablecoins that had hampered their credibility and wider adoption. The regulation therefore has the effect of legitimising this new form of asset, bringing it into the realm of traditional finance and paving the way for its widespread adoption.

The United States' desire to promote the growth of dollar-backed stablecoins is a response to the growing burden of debt servicing and the early signs of a decline in the dollar's status as an international currency and reserve currency.

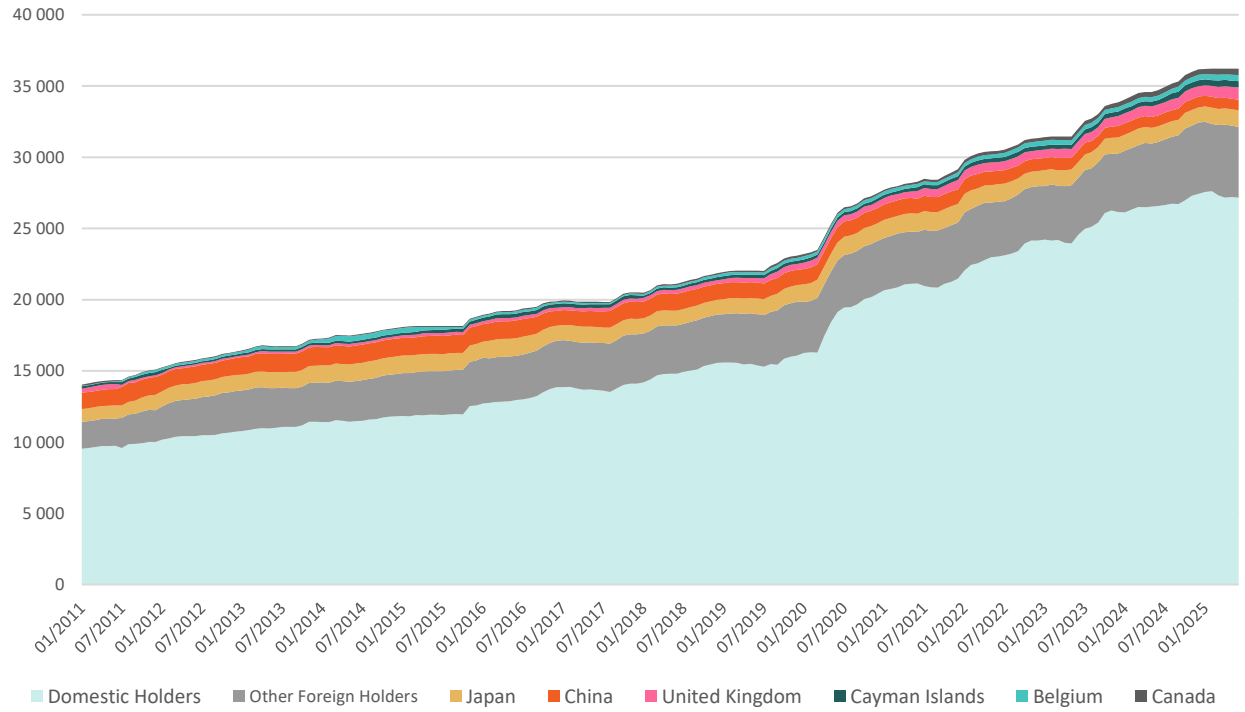
2.2. The United States faces the growing challenge of financing its deficits

2.2.1 Foreign investment in US bonds has only partly kept pace with the growth in debt

The share of foreign investors in US bond holdings fell from 32.1% to 25.0%[9] between 2011 and 2025. While US debt increased by 158% (from USD 14 trillion in January 2011 to USD 36.2 trillion in January 2025), the amount of debt securities held by foreigners rose by 100% (from USD 4.5 trillion to USD 9.05 trillion).

[7] A repurchase agreement, or repo, is a short-term financial transaction in which one party (the seller) sells financial securities to another party (the buyer) with the commitment to repurchase them at a later agreed date at a slightly higher price. This price difference represents an implicit interest rate for the lender of funds.
[8] Strengthening American Leadership in Digital Financial Technology – The White House, *The White House,* 23/01/2025
[9] Foreign Holdings of Federal Debt | Congress.gov | Library of Congress, 23/05/2025

Figure 2. Change in holders of US debt, in USD billion



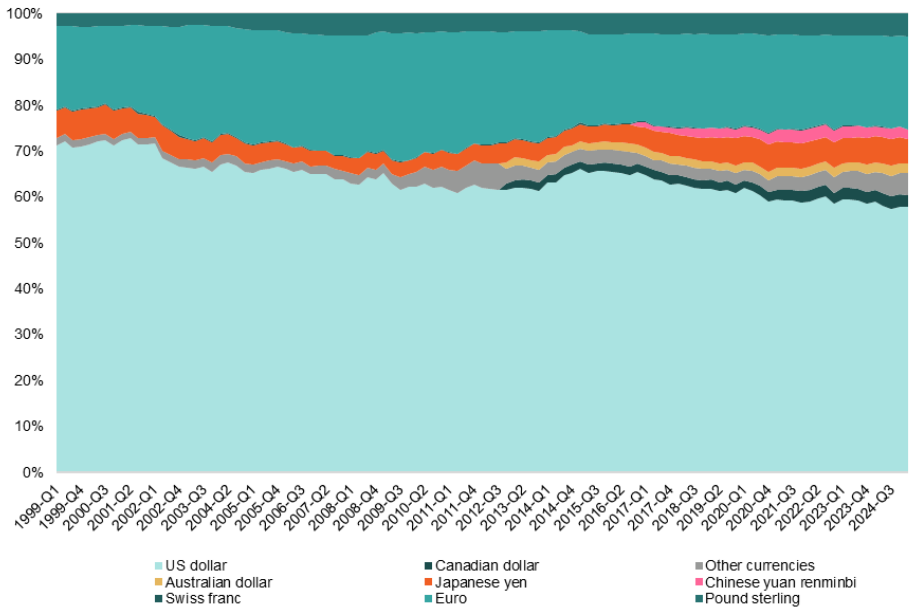
Source: *US Federal Reserve*

The decline in the US trade deficit with China since 2018 (from USD 419.2 billion to USD 295.4 billion between 2018 and 2024) coincided with a decrease in Chinese investment in US bonds. The share of US bonds held by China has thus fallen from 8.2% to 2.1% between 2011 and 2025. Indeed, Beijing traditionally reinvested part of China's trade surpluses in US debt in order to control the yuan's exchange rate against the dollar and preserve the competitiveness of its exports by maintaining a weak currency.

More generally, the dollar's share of global foreign exchange reserves has fallen by ten percentage points over the last decade, reaching 57% in 2025[10]. This reflects a decline in request for US bonds from central banks, for which these securities are the main collateral for foreign exchange reserves. The reduction in the dollar's share in favour of gold and other currencies – notably "non-traditional" reserve currencies such as the Australian dollar, the Canadian dollar, the Chinese renminbi and the South Korean won – reflects both a desire to diversify risk and, for some countries, the fear of financial sanctions or a freeze on their dollar assets in a context of geopolitical fragmentation.

[10] Dollar Dominance in the International Reserve System: An Update, *IMF,* 12/06/2024

Figure 3. Breakdown of official foreign exchange reserves by currency (as a percentage of allocated reserves)



Source: *IMF*

2.2.2 Future demand for US bonds is being slowed by several factors.

Firstly, the rise in the Japanese central bank's key interest rate (raised to 0.5%[11] in January 2025, its highest level in 17 years) is likely to reduce the volume of *yen carry trades*[12], which are one of the main sources of external request for US bonds. In January 2025, Japan held 3.2%[13] of total US government debt.

In addition, the US Federal Reserve (Fed) is in the process of reducing its holdings of US government bonds. The non-renewal of some of its maturing bonds should also contribute to reducing the request on the US bond market.

2.2.3 US government bond issuance is expected to increase significantly

Between 2012 and 2024, annual US debt servicing rose from USD 360 billion to USD 1,130 billion, an increase of 214%[14]. According to forecasts by *the Congressional Budget Office,* debt is expected to continue to grow over the next few years, reaching more than USD 50 trillion in 2035[15]. Combined with a lower request for debt from foreign investors, this increase in supply could push up interest rates. According to estimates by J.P. Morgan Research, each percentage point decline in foreign holdings relative to GDP (equivalent to approximately USD 300 billion in Treasury bonds) would lead to an increase in yields of more than 33 basis points.

[11] Interest Rates in Japan | 1972-2025 Data | 2026-2027 Forecast, *tradingeconomics.com,* 17/06/2025

[12] The large interest rate differential between Japan and the US led investors to borrow yen at very low rates and invest it in higher-yielding US bonds. Low Japanese interest rates have made Japan a major investor in foreign assets. Deutsche Bank estimates the amount of Japanese investment resulting from these carry trades at USD 20 trillion. Japan's govt debt is a $20 trln 'carry trade' - Deutsche Bank | MarketScreener, 14/11/2023.
Carry Trade Unwind: Is It Really Over? - Charles Schwab - Commentaries - Advisor Perspectives, 18/09/2025

[13] Treasury International Capital (TIC) systemhttps://ticdata.treasury.gov/resource-center/data-chart-center/tic/Documents/slt_table3.html

[14] Interest Expense and Average Interest Rates on the National Debt | U.S. Treasury Fiscal Data,

[15] The Budget and Economic Outlook: 2025 to 2035 | Congressional Budget Office, 6 January 2025

The United States is therefore facing a fiscal challenge marked by a continuous increase in debt issuance, combined with a slowdown in foreign investment in US bonds.

2.3. The development of dollar-backed stablecoins is part of a strategy to renew request for US bonds and consolidate the dollar as an international currency

2.3.1 A 'new strategic demand channel' for US bonds

Faced with declining interest in US bonds among foreign investors, the Republican administration is relying on the development of stablecoins as a lever for growth in the request for US Treasury bonds. This strategy has been explained on several occasions by Treasury Secretary Scott Bessent, who describes stablecoins as a "new strategic channel of demand". According to him, they not only broaden access to the dollar, but also "support sustained request for US Treasury bonds".

Today, the two main issuers of stablecoins, Tether and Circle, hold approximately $130 billion in US bonds, an amount equivalent to a position among the top 20 foreign creditors of US debt. By shifting stablecoin collateral on US Treasury bonds, **the GENIUS Act directs the growth of stablecoin capitalisation towards the demand for US bonds.** Thus, every stablecoin issued in the future will directly fuel the request for US bonds.

According to a conservative scenario, with stablecoins reaching USD 1 trillion by 2030, the total capitalisation of stablecoins should enable their issuers to hold a larger volume of bonds than China (USD 756 billion in June 2025) or the United Kingdom (USD 858 billion), thus becoming one of the primary sources of request on the US bond market. Stablecoin issuers would then hold around 2.5% of total outstanding public debt (USD.7 trillion in 2030)[16]; an amount equivalent to 2.75% of US GDP (USD 36.4 trillion in 2030[17]). The excess demand for US bonds linked to the growth of stablecoins (approximately USD 1 trillion) could therefore absorb more than 10% of the increase in US debt between 2025 and 2030 (USD 9.6 trillion).

All other things being equal, this new request could moderate short-term US bond yields. According to estimates by the Bank for International Settlements, an inflow into stablecoins equivalent to two standard deviations lowers 3-month Treasury bill yields by 2 to 2.5 basis points within 10 days [18]. In response, the US Treasury has already adapted its debt strategy by focusing its issuance on the front end of the curve, favouring short-term Treasury bills.

2.3.2 An instrument for the dollarisation of trade

The second objective of promoting stablecoins is to consolidate the hegemony of the dollar[19]. Thanks to their accessibility, low transaction costs and ease of use, stablecoins could become one of the main means of cross-border payment.

Furthermore, stablecoins could compete directly with local currencies for peer-to-peer and digital payments, thereby creating a new form of dollarisation. Indeed, two individuals from the same country could opt for stablecoin payments, which are both cheaper and faster, for their transactions, thereby substituting their local currency with a dollar-backed currency. Dollarisation thus takes the form of a dependence on the dollar, not directly as a medium of exchange, but as a currency reserve (see section below).

In addition, the GENIUS Act allows non-bank entities to issue their own stablecoins. Companies such as GAFAM could thus launch their own digital currency and encourage their customers to make payments using

[16] The Budget and Economic Outlook: 2025 to 2035 | Congressional Budget Office , 06/01/2025
[17] *Ibid*
[18] *Stablecoins and safe asset prices , BIS, 28/05/2025*
[19] Strengthening American Leadership in Digital Financial Technology – The White House, 30/07/2025

this currency. For example, Amazon could offer a discount on transactions made with its stablecoin, thereby promoting the gradual dollarisation of trade. **The development of stablecoins therefore risks leading to the quasi-dollarisation of payments in a given country, even if the currency used is not directly the dollar.**

2.4. However, the growth of stablecoins comes with major prudential risks

Firstly, stablecoins present a significant concentration risk. If the various stablecoins are not interoperable, network externalities could lead to a concentration of the total capitalisation of stablecoins among a limited number of players, thus creating an oligopoly. Beyond the known risks associated with the lack of competition for users, this configuration would pose a risk to US public debt by concentrating a significant portion of its debt securities in the hands of a few issuers. A single issuer could then hold a large enough stock of bonds to exert market power.

Furthermore, stablecoins remain exposed to the risk of a run on the counter in the event of a depreciation in the value of their collateral. The crises involving the USDC and Terra Luna stablecoins (see section 1) have shown that confidence in these currencies can erode rapidly. In particular, a fall in the value of US bonds – the main collateral for stablecoins compliant with the GENIUS Act – could trigger widespread mistrust in the value and convertibility of stablecoins, prompting users to convert their stablecoins into dollars in masse. Issuers would then be forced to liquidate their US bond reserves, exacerbating the decline in bond values and the crisis of confidence.

The impact of a withdrawal by stablecoin users could have an effect impact on US bonds[20]. The Bank for International Settlements estimates that the impact of stablecoins on US Treasury yields was two to three times greater for a withdrawal than for a purchase of stablecoins. A withdrawal of stablecoins equivalent to two standard deviations would increase yields by 5 to 6 basis points in less than ten days.

In the face of these new prudential risks, monetary policy stabilisation instruments are weakened. On the one hand, the development of stablecoins is detrimental to traditional bank deposits, thereby reducing the effectiveness of the transmission channel of key interest rates to the real economy. On the other hand, the tokenisation of finance, of which stablecoins are a major vector, accelerates flows and transactions, posing an increased risk of excessive asset price volatility and therefore financial stability.

3. Use of stablecoins in emerging economies: despite positive aspects, the lack of appropriate regulations poses a risk to countries' financial stability and monetary sovereignty

International flows reveal that stablecoins are becoming increasingly widespread in emerging and developing economies. In 2024, stablecoin flows were highest in North America and the Asia-Pacific region[21]. However, in relation to GDP, stablecoin flows were highest in Latin America and the Caribbean (7.7%) and in Africa and the Middle East (6.7%), demonstrating the particular relevance of this form of payment for emerging economies.

More specifically**,** in 2022, **more than a third of households** in Latin America **reported using stablecoins to make everyday purchases**[22]**.**

In sub-Saharan Africa, stablecoins such as Tether (USDT) and Circle (USDC) are also increasingly used in economies facing high exchange rate volatility and limited access to the US dollar. **They already account for**

[20] *Stablecoins and safe asset prices, BIS, 28/05/2025*

[21] Decrypting Crypto: How to Estimate International Stablecoin Flows, *IMF,* 11/07/2025

[22] Latin America's crypto conquest is driven by consumer needs, *PR Newswire,* 22/06/2022

around 43% of the total volume of cryptocurrency transactions in the region, and their adoption continues to accelerate[23].

While in some cases the adoption of a dollar-pegged stablecoin has advantages, it also comes with more harmful side effects.

3.1. Stablecoins offer a refuge from inflation and exchange rate risks, speed up payments and remittances, and could enable emancipation from the dollar

3.1.1 Stablecoins offer access to a stable currency, protected from inflation and exchange rate risks

Their ability to provide **inexpensive, efficient and accessible** digital financial services makes them attractive to people in countries facing high inflation, frequent currency depreciation and limited access to global financial markets[24].

When the local currency depreciates rapidly, households lose purchasing power if they hold part of their savings in assets denominated in the national currency and through higher import prices. **By keeping their savings or funds in a stablecoin backed by a strong currency** (such as the US dollar)**, they can avoid or reduce this loss of value**[25]. As a result, stablecoins have become more widely used in countries such as **Argentina, Turkey** and **Venezuela,** where inflation is very high.

For example, in Argentina, where inflation reached 161% in 2023 (33.6% annual inflation in July 2025[26]), Argentinians turned to stablecoins: combined purchases of USDT and USDC accounted for **72%** of all crypto asset purchases in 2024[27].

The same phenomenon can be seen in Nigeria, **where around 20% of residents say that stablecoins account for more than half of their total crypto asset portfolio**[28]. Much of this request stems from a desire to convert local currency into dollars, as capital controls have made it difficult to access the foreign exchange market through conventional means[29].

Finally, in a conducted in emerging markets by Castle Island Ventures in early 2024[30], 47% of respondents said their goal for stablecoins was to "save in dollars." The excess outflows from the United States and their intensification when the dollar appreciates corroborate this observation[31].

3.1.2 Despite the lack of interoperability, stablecoins speed up transfers and facilitate remittances

One of the main advantages of dollar-pegged stablecoins is their ability to simplify and reduce the cost of transferring funds to developing countries[32]. According to World Bank estimates, sending $500 from the United States to a country such as Pakistan still cost more than 3.5% of the transaction value via traditional channels at the end of 2024. **In contrast, an equivalent transfer made in stablecoins incurs almost no fees, while allowing for an immediate transfer** without the need for a traditional bank account[33].

[23] How Stablecoins Could Further Weaken Africa's Public Finances, *Centre for Global Development,* 12/08/2025
[24] The Impact of Stablecoins on U.S. Dollar Dominance: Evidence from Emerging Market Economies, *Shuoshuo Bian,* 06/2025
[25] Technology, Payments, and the Rise of Stablecoins, *IMF,* 09/2025
[26] Argentina Inflation Undershot Forecast Before Buenos Aires Vote , *Bloomberg,* 10/09/2025
[27] Crypto Landscape in Latin America 2024, *Bitso,* 2024
[28] Stablecoins: The Emerging Market Story, *Castle Island Ventures,* 09/2024
[29] Will stablecoins help developing countries? It's complicated, *Chatham House – International Affairs Think Tank,* 26/08/2025
[30] Stablecoins: The Emerging Market Story, *Castle Island Ventures,* 09/2024,
[31] Decrypting Crypto: How to Estimate International Stablecoin Flows, *IMF,* 11/07/2025
[32] Technology, Payments, and the Rise of Stablecoins, *IMF,* 09/2025
[33] Will stablecoins help developing countries? It's complicated, *Chatham House – International Affairs Think Tank,* 26/08/2025

For example, in Brazil, **the governor of the Central Bank stated that the growing appeal of stablecoins** – which account for nearly **90%** of digital asset transactions – **was driven by their increasing use as a means of payment**. Most transactions are used to purchase goods abroad[34], confirming the role of stablecoins in facilitating trade.

Nevertheless, for the time being, **the lack of interoperability** – i.e. the ability of different stablecoins to substitute for one another – **is a limitation that hinders their competition with other means of payment**. Although stablecoins are known for their speed of transfer, they remain independent: if a person wants to pay in USDT (Tether) stablecoins and the seller only accepts USDC (Circle), then the payment cannot be made. Implementing regulations that require interoperability should remove these barriers.

In 2016, **India implemented a policy of this type to unify the various digital payment methods used by banks and applications: *the Unified Payments Interface* (UPI)**. Following this reform, UPI has become the world's largest real-time payment system in terms of volume, **with 19 billion transactions each month[35]**.

Furthermore, by giving users the choice to use their preferred platform – since all are connected, none can impose itself simply through network effects – this measure has two major advantages. The first is **an improved user experience**, stimulated by competition and the entry of new players into a now open market. The second is **increased innovation,** driven by the need for providers to constantly improve their services[36]. **If such regulations were adopted for stablecoins, similar positive effects could be expected.**

Finally, reducing transfer costs for cross-border payments and remittances also has advantages for businesses that have to deal with multiple currencies. Processing multiple currencies can be slow, costly and operationally complex, particularly for businesses in emerging markets**. The democratisation of stablecoins could therefore be favoured by economic agents in Africa, for example, where more than 40 national currencies circulate and conversion fees can reduce profit margins[37]**. This could be particularly beneficial as the continent seeks to develop its internal trade, notably through the African Continental Free Trade Area (AfCFTA) initiative.

3.1.3 The democratisation of stablecoins pegged to other currencies could help emerging economies break free from the dollar

Finally, **the development of stablecoins backed by currencies or assets other than the dollar could, in the long term, enable emerging and developing countries to carry out transactions in currencies other than** the dollar, thereby challenging its privileged status[38]. The success of these stablecoins remains conditional, however, on their backing by a stable currency or asset, as well as their issuance by a trusted institution, without which there is no advantage in favouring them as a reserve currency.

Furthermore, if the risks and costs associated with payments between different currencies decrease significantly, the use of the US dollar as an intermediary currency would become less necessary[39].

3.2. Nevertheless, the spread of stablecoins risks eroding countries' monetary sovereignty

Despite the positive effects mentioned above, stablecoins pose numerous risks for emerging and developing economies.

[34] Brazil's Galipolo sees surge in crypto use, says 90% of flow tied to stablecoins, *Reuters,* 06/02/2025
[35] Technology, Payments, and the Rise of Stablecoins, *IMF,* 09/2025
[36] Technology, Payments, and the Rise of Stablecoins, *IMF,* 09/2025
[37] The State of Digital Assets Regulation in Africa, *Yellow Card Report,* 2025
[38] Is tokenisation changing the game for the international monetary system?, *Banque de France,* 15/09/2025
[39] Is tokenisation changing the game for the international monetary system?, *Banque de France,* 15/09/2025

3.2.1 By replacing national currencies, stablecoins risk reducing the capacity of monetary authorities to intervene

The democratisation and use of dollar-backed stablecoins as a means of payment and money transfer expose economies to the risks associated with digital dollarisation.

The use of US dollar-backed stablecoins risks causing a phenomenon known as "currency substitution", i.e. the replacement of the national currency by the stablecoin as a store of value, means of payment and account unit[40]. **This phenomenon reduces the control of monetary authorities over national liquidity by limiting the component over which they exercise direct influence and by undermining the stability of money demand[41]**. As a result, monetary policy transmission – i.e. the way in which the manipulation of monetary instruments affects macroeconomic variables – could be weakened[42].

This risk is even more pronounced in the case of stablecoins than in the case of traditional foreign currencies, **as these new forms of currency are, by definition, much more accessible**, thereby intensifying monetary substitution[43].

Furthermore, if, in response to the emergence of these stablecoins, the central banks of emerging countries were to issue their own digital currencies**, this would not necessarily help to fight currency substitution in a context where the local monetary policy framework lacks credibility**. Indeed, for central banks that decide to issue their own digital currencies, **this could complicate the conduct of their monetary policy, as foreign use of their digital currencies could increase the volatility of capital flows.** Conversely, it could nevertheless promote the internationalisation of their currency or help it achieve reserve currency status. However, if the issuing institution does not inspire confidence and stability, there is little chance that this currency will be adopted by the population[44].

In other words, this new form **of dollarisation of the economy could have serious implications for the choice of exchange rate regime.** On the one hand, if a highly dollarized economy chooses **a floating exchange rate regime**, depreciation leads to **an increase in the weight of dollar-denominated household and corporate debt**. On the other hand, if the country opts for **a fixed exchange rate regime,** this means **that it gives up its monetary policy autonomy,** as the central bank would then have to align its interest rates with those of the US Federal Reserve.

3.2.2 The growing adoption of stablecoins may reduce seigniorage revenues

The spread of stablecoins pegged to foreign currencies also risks reducing seigniorage revenue, i.e. the revenue derived from the privilege of issuing currency : when a commercial bank needs banknotes for its customers, it obtains them from the central bank in exchange for a debt corresponding to the face value of those banknotes, and pays interest to the central bank on that debt as long as the banknotes remain in circulation. The principle is therefore based on the difference between the income from the loan granted by the central bank to the commercial bank and the cost of producing the banknote[45].

In Africa, seigniorage revenues, approximated by the change in the monetary base, represent on average 1 to 1.5% of GDP per year[46]. In developing countries in Asia and in advanced economies,

[40] Digital Money Across Borders: Macro-Financial Implications, *IMF,* 19/10/2020
[41] Will stablecoins help developing countries? It's complicated, *Chatham House – International Affairs Think Tank,* 26/08/2025
[42] Digital Money Across Borders: Macro-Financial Implications, *IMF,* 19/10/2020
[43] Digital Money Across Borders: Macro-Financial Implications, *IMF,* 19/10/2020
[44] Digital Money Across Borders: Macro-Financial Implications , *IMF,* 19/10/2020
[45] Seigniorage , *Banque de France,* 7 April 2025
[46] Opening Remarks at the Association of African Central Banks 2019 Symposium: Rising African Sovereign Debt: Implications for Monetary Policy and Financial Stability, *IMF,* 31/07/2019

seigniorage revenues often exceed 2% of GDP. **These revenues are not insignificant for governments, as each year the central bank transfers part of these seigniorage revenues to public budgets**[47].

Thus, the growing adoption of stablecoins **could reduce this source of revenue for governments**. However, the final budgetary impact would depend on national rules and the ability of tax systems to adapt[48].

3.2.3 By reducing the tax base, stablecoins may have a negative effect on the mobilisation of domestic resources

Finally, the spread of stablecoin may have a negative effect on the mobilisation of domestic resources. By facilitating tax evasion through untraceable transactions, stablecoins could **reduce the tax base for income and capital gains**.

3.3. By escaping from traditional regulatory frameworks and systemic oversight, stablecoins raise risks to countries' financial stability

The spread of stablecoins also poses risks to the financial stability of emerging economies by circumventing traditional regulatory frameworks and reducing the authorities' scope of control.

Central banks have designed their systems for a bank-dominated system, where deposit rates influence lending and lender-of-last-resort facilities reassure depositors. **However, unlike banks, stablecoins operate without deposit insurance, access to the lender of last resort or systemic supervision**[49]. The absence of these traditional safety nets allows stablecoin issuers to escape traditional capital, liquidity and resolution rules. Their growing use therefore poses a risk to countries' financial stability. **Furthermore, the reduction in transaction time enabled by stablecoins is likely to amplify shocks**[50] (see section on the collapse of the Terra stablecoin: section 1.3).

Furthermore, **their decentralised nature makes it easier to circumvent transparency requirements and the regulatory framework governing traditional financial systems**. This lack of oversight allows issuers to operate without sufficient control, **which can pave the way for abuse or market manipulation**. For example, it is not uncommon for stablecoin issuers to hold a significant portion of illiquid assets in order to increase their profits, making them particularly vulnerable in the event of massive redemption requests[51]. This lack of transparency and the absence of disclosure rules prevents investors from accurately assessing risks and reduces confidence[52].

This lack of regulation, amplified by geo-economic tensions, **increases the risk of fragmentation in the global financial system, posing major challenges for the coordination of international regulations**, as highlighted by Christine Lagarde of the European Central Bank and Pan Gongsheng of the People's Bank of China[53].

In Africa, Nigeria is a pioneer in the regulation of stablecoins. In May 2025, the country revised its legislation on stablecoins in order to regulate their use more effectively. **This reform has moved digital assets from a largely unregulated space to a clearly defined legal environment**. The new framework stipulates, in particular, that all transactions involving stablecoins must be subject to anti-money laundering procedures, with the aim of controlling illicit flows and limiting capital flight[54]. **In addition to this reform, a portal dedicated to value added tax has been set up, specifically targeting foreign cryptocurrency**

[47] How Stablecoins Could Further Weaken Africa's Public Finances, *Centre for Global Development,* 12/08/2025
[48] How Stablecoins Could Further Weaken Africa's Public Finances, *Centre for Global Development,* 12/08/2025
[49] Technology, Payments, and the Rise of Stablecoins, *IMF,* 09/2025
[50] Technology, Payments, and the Rise of Stablecoins, *IMF,* 09/2025
[51] The Impact of Stablecoins on U.S. Dollar Dominance: Evidence from Emerging Market Economies, *Shuoshuo Bian,* 06/2025
[52] The Impact of Stablecoins on U.S. Dollar Dominance: Evidence from Emerging Market Economies, *Shuoshuo Bian,* 06/2025
[53] Technology, Payments, and the Rise of Stablecoins, *IMF,* 09/2025
[54] Nigeria Adopts Stablecoin Framework With SEC Backing and Blockchain Integration, *Serrari Group,* 28/07/2025

exchange platforms. This initiative concerns platforms that facilitate the conversion or transfer of funds between the naira and stablecoins, classifying them as digital service providers taxable under national legislation. This measure allows the Nigerian government to derive revenue from this rapidly expanding sector[55].

However, this legislation has also drawn criticism. It is accused of treating stablecoins as traditional financial securities, such as shares or bonds, and therefore applying an inappropriate regulatory framework to them. Such an approach could stifle innovation and discourage investment[56]. **The debate surrounding the new legislation illustrates the difficulties surrounding the legal framework for stablecoins, even in a pioneering country such as Nigeria**.

Another approach for governments to exercise greater control over these new forms of currency **is to issue their own digital currency or stablecoin**. This is the case in Venezuela, which launched its own sovereign crypto asset in 2018, backed and issued by the state, with its viability guaranteed by the country's oil reserves. **However, the lack of transparency during the launch process, combined with volatile oil prices and rising inflation in the country, led to the failure of this sovereign** stablecoin[57].

3.4. The need for liquid assets to operate stablecoins, the reduction in deposits and the search for higher returns may reduce the supply of traditional credit

Firstly, by capturing a portion of the income of individuals who save their earnings in stablecoins rather than in traditional banks**, stablecoins reduce the supply of credit and risk causing a crowding-out effect.** This is because banks use deposits to cover the loans they make. A decline in these deposits impacts their balance sheets and therefore reduces their lending capacity**.**

Finally, if various traditional banks start issuing their own stablecoins backed by the US dollar or other stable currencies, there is a risk of credit contraction. The widespread use of fast payments increases the need for banks to hold liquid assets, such as cash or government bonds, rather than granting illiquid loans. This could therefore encourage them **to reduce their lending to households and businesses** in order to offset losses related to the time lag in the clearing of payment flows[58].

Furthermore, when banks hold a larger share of low-yielding liquid assets, they have a greater incentive to seek returns by granting riskier loans[59]. **Ultimately, this could undermine banks' profitability and make them more vulnerable.**

The adoption of stablecoins by traditional banks could therefore lead to a banking model that is both more restricted and potentially riskier[60].

[55] Nigeria Adopts Stablecoin Framework With SEC Backing and Blockchain Integration, *Serrari Group,* 28/07/2025
[56] The Securitisation of Stablecoins under Nigerian Law: A Call for Function-Based Regulation, *Olayimika Oyebanji,* 08/09/2025
[57] Centralised Cryptocurrency Among Decentralised Cryptocurrencies: An Analysis of the Viability of the Petro in Venezuela, N.T Rangel, 05/05/2024
[58] Technology, Payments, and the Rise of Stablecoins, *IMF,* 09/2025
[59] Technology, Payments, and the Rise of Stablecoins, *IMF,* 09/2025
[60] Technology, Payments, and the Rise of Stablecoins, *IMF,* 09/2025