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POLICY BRIEF

STABLECOINS' POTENTIAL EFFECTS ON MONETARY SYSTEMS



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The passage of the US Genius Act in July 2025 has spurred the growth of stablecoins, mostly dollar-based, helping to modernize and improve payment transactions. The market capitalization of stablecoins increased rapidly to \$317 billion in April 2026 and is expected to grow to \$3-4 trillion by 2030. While still modest in scale, stablecoins— if fully developed, especially in the face of potentially strong competition from tokenized bank deposits—could have multifaceted effects on the economy and monetary system, both positive and negative, though these remain not yet well understood. Policymakers and market participants should be aware of these potential effects in order to realize the benefits while guarding against the risks of stablecoins.

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STABLECOINS AND THE MONETARY SYSTEM

Being transactable on blockchains on a 24/7 basis and settled almost instantaneously at low cost—a clear improvement over traditional payment alternatives—stablecoins could increase the velocity of money compared to the turnover rate of bank demand deposits or cash. *Ceteris paribus*, rising money velocity would lead to higher prices, according to the identity $MV = PQ$, where M is the money aggregate, V is money velocity, P is price and Q is quantity. The potential inflationary effect resulting from the higher velocity associated with stablecoins would require close monitoring and appropriate policy responses by central banks.

The 100% reserve requirement effectively makes stablecoin issuers similar to [narrow banks](#), except that issuers offer instruments akin to demand deposits that can be transacted on blockchains but without the protection of deposit insurance. Stablecoins are not currently included in the [monetary aggregate M1](#), despite being used as means of payment similar to bank deposits.

If cash is used to purchase stablecoins, this also represents the creation of additional units of payment, adding to the stock of physical cash that remains in circulation after the transaction—assuming consumers' propensity to hold and use cash has not changed. In this context, the newly created stablecoins are not included in the calculation of [monetary aggregate M0](#), even though they are tokenized versions of currency in circulation.

If stablecoins grow significantly in the future, the definition of M0 and M1 may need to be adjusted so that the central banks and the public can have transparent and comprehensive measures of the money supply—an important condition to assessing monetary conditions.

STABLECOINS AND CHANGES IN FLOWS OF FUNDS

It has been argued that the legal requirement for stablecoins to be fully backed by reserves of high-quality liquid assets implies that, as the volume of stablecoins grows, issuers will need to hold more reserve assets—particularly [US Treasury bills](#) (T-bills)—potentially increasing demand for T-bills at the expense of investment in other assets. While this raises *regulatory* demand for Treasuries—similar to requirements imposed on financial institutions such as banks and prime money market funds for prudential reasons—and such demand is typically more stable and reliable than *discretionary* investor demand, the net impact of these reserve requirement is more complex than this simple characterization suggests.

At present, stablecoin issuers are estimated to hold about [\\$182 billion](#) in US T-bills—roughly 57% of their reserves—with the remainder held in higher-yielding assets such as bank deposits or certificates of deposits. This represents a small share of the total outstanding volume of US T-bills (approximately [\\$6.8 trillion](#)).

As the volume of stablecoins grows, their influence on T-bill markets may increase, but initially in an indirect manner—by putting upward pressure on prices and incentivizing existing holders to sell to stablecoin issuers. In effect, this would primarily change the ownership of T-bills rather than their total outstanding supply. Over time, however, at primary Treasury auctions, increased demand from stablecoin issuers could enable the Treasury to issue more securities or do so at lower interest rates than would otherwise be possible.

Importantly, it is not accurate to claim that increases in stablecoins—prompting issuers to hold more US T-bills—will reduce the volume of bank deposits and loans in the banking system, as suggested by the [Kansas City Federal Reserve Bank](#). Conceptually, a shift of one dollar from bank deposits to stablecoins implies an increase of about \$0.57 in issuers' holdings of US T-bills, alongside a reduction in banks' holdings of \$0.14 in longer-dated US Treasuries, \$0.20 in other securities (including corporate bonds), and \$0.66 in loans (to corporates and households), consistent with the [composition of US banks' assets](#).

However, this holds only in the first round of transactions. In practice, the bank deposits used to acquire stablecoins are transferred from buyers to issuers, and then to existing holders of T-bills, but do not disappear from the banking system. In other words, the total volume of bank deposits funding assets—including bank loans—remains unchanged, with deposits simply shifting among banks (or even remaining within the same bank if all parties hold accounts there).

STABLECOINS AND DISINTERMEDIATION OF THE BANKING SYSTEM

More generally, there are concerns that the growth of stablecoins could [disintermediate the banking system](#), as users shift from holding bank deposits to stablecoins, potentially reducing banks' deposit funding base and their capacity to extend credit to the economy. In practice, however, the process is more complex than this characterization suggests, and the impact is likely overstated.

Similar to the analysis in the previous section, the final net impact of using bank deposits to acquire stablecoins depends on the behavior of multiple actors along the chain of transactions. In this process, bank deposits are transferred from the buyers of stablecoins to the issuers, and then to the sellers of high-quality liquid assets (which issuers need for their reserves). Unless recipients of these bank deposits use them to repay bank loans, deposits do not disappear from the banking system: they simply change hands. Individual banks may lose deposits and need to shrink their balance sheets, but this does not apply to the banking system as a whole.

It is important to note that changes in the overall volume of deposits in the banking system are [primarily driven by the demand for loans](#)—banks create deposits when they extend credit and extinguish them when loans are repaid—rather than by changes in the composition of assets (i.e., deposits versus stablecoins) held by businesses and households.

While stablecoins may not reduce the total volume of bank deposits, they are transactable and settled on blockchains independently of the banking system. Consequently, increased use of stablecoins implies less reliance on transfers of bank balances, thereby reducing the role of deposits in payment transactions.

In addition to serving as a means of payment, stablecoins can be used to extend loans on decentralized finance (DeFi) platforms and as collateral in various financial transactions, similar to bank deposits. However, [stablecoins-based lending](#) is unlikely to match the scale, professionalism, risk-pooling, and maturity and credit transformation functions of the banking system, which remain critical for the functioning of the broader economy.

While the substitution of stablecoins for bank deposits is complicated and generally limited so long as demand for bank loans exists, stablecoins can replace physical cash or

currency in circulation in a straightforward way. As people increasingly prefer to conduct payment transactions using electronic instruments and platforms—becoming a cash-less society—the amount of currency in circulation declines. For example, in Nordic countries, [in particular Sweden](#), up to 91% of the population currently uses electronic means of payment, including bank debit and credit cards and mobile app Swish—offering real-time account-to-account transfers of bank balances. Consequently, currency in circulation has [shrunk by half since 2007](#), now representing less than 1% of the country's GDP (compared with [10% in the Euro Area](#)).

As the share of cash in M0 declines, that of bank reserves increases (together with the velocity of deposits) as the payment system relies more and more on electronic transfers of bank deposits. By contrast, stablecoins can replace cash and be transacted on blockchains, separately and independently from transfers of bank balances, as described above. The usefulness of M0 as a high-powered monetary base, allowing the central bank to manage the money supply in the economy, would decrease—marginalizing the influence of the central bank itself.

STABLECOINS AND FINANCIAL STABILITY RISKS

Stablecoins—tokenized units transactable on blockchains—would bring to the fore the relevance of cybersecurity risks and power failures, as well as the importance of issuers' risk management capabilities, especially in light of the availability of sophisticated AI models—such as [Anthropic's Mythos](#)—which can be used for “fast hacks”.

Stablecoins carry an inherent risk of redemption failure, especially de-pegging, which materializes when users doubt the ability of the issuer to redeem stablecoins at 1:1 ratio, and rush to redeem or sell their stablecoins, causing their prices to fall below parity. This is similar to [breaking-the-buck](#) crises that can afflict money market funds, when investors rush to redeem their shares in MMFs suspected of suffering losses and, therefore, of being unable to redeem shares at parity.

In the past five years, there have been [nine episodes of de-pegging crises](#) across various stablecoins. In a noteworthy case, USD Coin (USDC) collapsed in March 2023 to as low as \$0.87 when the issuing company, Circle, reported that it held \$3.3 billion in reserves at the failing Silicon Valley Bank (SVB). The value of USDC recovered only after the FDIC guaranteed all SVB deposits. This case illustrates the linkage, or channel of contamination, between stablecoins and bank deposits, requiring effective auditing and regulatory supervision of stablecoin issuers to ensure that their reserve management is satisfactory.

More broadly, online switching from bank deposits to stablecoins could increase the speed and severity of a bank run. This would require financial supervisors to react promptly to contain a banking crisis. However, the programmability of stablecoins could allow issuers to impose limits on the conversion of bank deposits to stablecoins, or on holdings of stablecoins, thereby limiting the scale of a tokenized bank run during market turmoil.

STABLECOINS AND DIGITAL DOLLARIZATION

So far, dollar-based [stablecoins have been used mainly](#) in transactions involving crypto instruments, including by bad actors engaged in illegal activities; in cross-border

transactions such as remittances; in developing countries whose monetary authorities are perceived to be ineffective or unable to keep inflation under control; and in countries under sanctions by the US government, such as Iran. More recently, stablecoins—and tokenized bank deposits—have begun to be used by [some corporate treasurers](#) to make cross-border transactions in their global liquidity management.

The use of stablecoins outside the country issuing the fiat currency backing the tokens—for example, the US for dollar-based stablecoins—and outside the country of domicile of the issuing company—for example, [Tether](#), a leading issuer of dollar-based stablecoins, is registered in the British Virgin Islands—has raised the problem of digital dollarization, which can undermine the monetary sovereignty of foreign countries. Specifically, dollarization weakens the ability of foreign monetary authorities to control local monetary conditions and to provide customer protection when the stablecoins used by their citizens fall into de-pegging crises.

Some observers have expected that the overseas use of dollar-based stablecoins would increase demand for the US dollar, thereby sustaining its dominance in international finance. However, stablecoins currently represent a very small channel for foreign demand for dollars, compared with the [\\$16 trillion of dollar assets](#) held by banks not domiciled in the US, or the roughly [\\$1 trillion of US banknotes](#) circulating outside the US. Moreover, the preeminent position of the dollar has been underpinned by fundamental strengths, including the fact that the US has the largest economy in the world; the largest, well-regulated, most liquid and sophisticated financial market; and an open, secure and reliable legal system. Any change in international perceptions of these fundamental strengths would affect the global role of the dollar far more than the convenience of transacting stablecoins on blockchains.

REGULATORY FRAMEWORKS FOR STABLECOINS

While stablecoins are being used in quite a few developing countries, many of them [have not adopted regulations](#), or remain under-regulated, regarding the use of stablecoins in their jurisdictions, thereby exposing their citizens to the de-pegging risks of stablecoins issued in foreign countries, without any means of redress. However, since stablecoins tend to be used in countries whose central banks have failed to control inflation, the fundamental remedy should be to improve the capacity and effectiveness of central banks, thereby removing the need for their citizens to seek alternatives to local currencies in stablecoins. More generally

, many developing countries could learn from Kenya's experience in launching the first successful mobile payment platform—[M-PESA](#)—which has been adopted by quite a few other countries, especially in Africa.

Generally speaking, most advanced market and several large emerging-market countries have implemented [regulatory frameworks](#) for the issuance and use of fiat-currency-backed stablecoins. Most of these require stablecoin issuers to be registered and supervised by financial authorities; to maintain effective reserve management to ensure 1:1 redemption ratio; and to follow KYC/CFT rules. However, no jurisdiction has recognized [stablecoins as legal tender](#), requiring creditors to accept them in payment of debt. Furthermore, there are differences between national regulations that could hinder the safe development of stablecoins.

For example, the US GENIUS Act prohibits issuers from paying interest on stablecoins, but this is [not a global standard](#). Japan's Payment Services Act (2023) distinguishes between digital money-type stablecoins, electronic payment instruments pegged to fiat currency, and crypto asset-type stablecoins. Only banks, fund transfer service providers, and trust banks can issue digital money-type stablecoins; banks can treat tokens as deposits fully covered by deposit insurance. The UAE's VARA framework (2025) requires approval for each fiat-referenced token, which may circulate only within the virtual asset ecosystem and may not be used for general payments. [Central Bank of Brazil](#) Resolutions 519-521 (2026) treat stablecoins as foreign exchange transactions, and ban purely algorithmic stablecoins. The Bank of England has recommended (2025) holding limits of £20,000 per individual and £10 million per business.

Several countries ban the use of stablecoins, including China, Algeria, Nigeria and Bangladesh. In particular, China prohibits the circulation and use of stablecoins and crypto instruments on the mainland, but has allowed [Hong Kong to license issuers](#) of stablecoins backed by Hong Kong dollars, US dollars, RMB, and other currencies, in an attempt to compete against dollar-based stablecoins.

Generally speaking, the EU has imposed a very strict regulatory framework through the [Markets in Crypto Assets Regulation](#) (MiCA), requiring issuers of currency-backed stablecoins to be registered as Electronic Money Institutions (EMI) in a member state, with large EMIs to be supervised by the European Banking Authority (EBA). Stablecoins backed by non-euro currencies are also subject to a daily [cap of €200 million](#) in total transactions, to limit their impact on EU monetary sovereignty.

In short, it is important to develop an internationally coordinated regulatory framework for stablecoins in order to reap their benefits while guarding against the risks they pose.

CONCLUDING REMARKS

Stablecoins promise to modernize and improve payment transactions, including by spurring the development of competing tokenized instruments such as tokenized bank deposits and [central bank digital currencies](#) (CBDCs), which have been tested in many countries, except in the US, where CBDCs have been legally banned. At the same time, stablecoins pose problems for policymakers to consider; it is likely that the current set of regulations has not addressed all the potential implications of their growing use.

Ultimately, the most fundamental challenge posed by stablecoins could be to central banks. If payment transactions are increasingly conducted through stablecoins provided by private entities on blockchains, functioning independently from the banking system, including central banks and their payment rails, then [private money](#) independent of central bank control could gradually replace public money. A private-money regime existed in the US during the 1800s, creating many problems, including crises, and eventually leading to the establishment of the Federal Reserve in 1913. Central banks must therefore find ways to retain their ability to influence short-term interest rates and the money supply, so as to avoid being marginalized in a modern version of the private-money regime that the US abandoned more than a century ago.

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In 2001-07, he served as the Deputy Director of the Monetary and Capital Markets Department, International Monetary Fund. Among other duties, he chaired the Editorial Committee of the Global Financial Stability Report, one of the IMF's flagship publications. In the previous two decades, he worked as senior economist, chief economist and global head of research of Rabobank International, Deutsche Bank, Merrill Lynch and Salomon Brothers; having been posted in New York, Frankfurt, Singapore and London. Before that, he briefly taught Economics at New York Institute of Technology. Hung Tran has authored and published numerous articles and books on economics and financial markets, and has been interviewed and quoted extensively in the international media.

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