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EXECUTIVE SUMMARY

Stablecoins, digital tokens pegged to fiat currencies—are rapidly expanding from a niche crypto tool to a mainstream financial instrument.

With a market capitalization of approximately \$250 billion by mid-2025 and projections up to \$3.7 trillion by the end of the decade, they are becoming strategic assets influencing global payments, monetary policy, and dollar dominance.

The US, through the GENIUS Act enacted in July 2025, champions dollar stablecoins as a private-sector solution to reinforce the dollar's global standing, contrasting with Europe's digital euro and China's e-CNY.

Stablecoins offer significant advantages for cross-border payments and remittances, particularly in emerging markets for inflation hedging and financial inclusion.

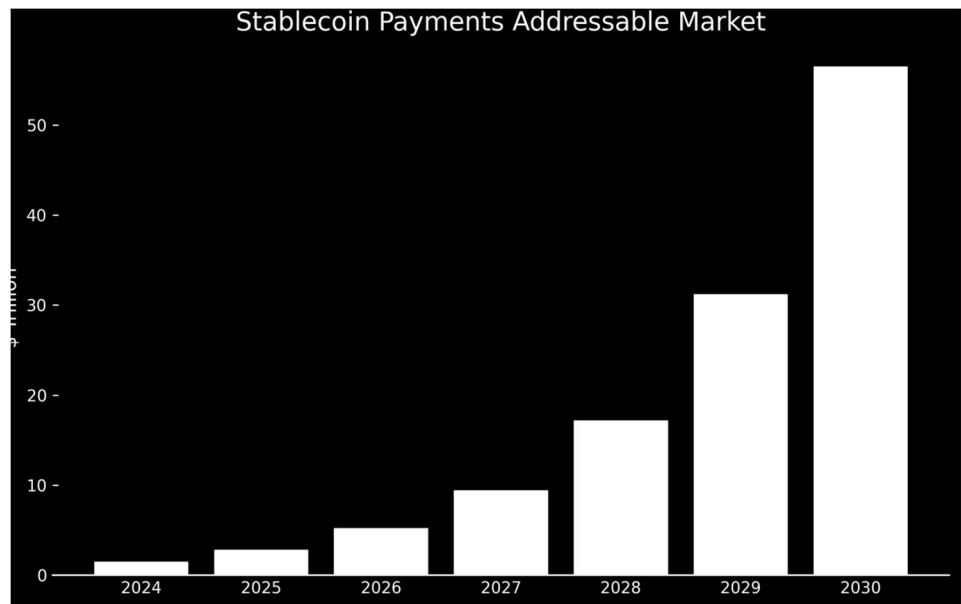
Traditional financial institutions are adapting by integrating stablecoins, viewing them as complementary rather than disruptive. However, challenges like regulatory fragmentation, de-pegging risks, and limited consumer adoption persist. Their long-term success hinges on continued regulatory clarity and broader economic uptake.

THE RISE OF STABLECOINS

What Are Stablecoins?

Stablecoins are a type of digital token that combine the technology of cryptocurrencies with the stability of traditional fiat currencies. Unlike Bitcoin, which fluctuates in value and has no issuer, stablecoins are designed to maintain a fixed value with a fiat currency and are liabilities of their issuer. They are hosted on blockchains, making them accessible, programmable, and transferable 24/7 across borders.

Stablecoins are a category of digital tokens designed to maintain a stable value by pegging their price to one or more reference assets, most commonly fiat currencies like the US dollar or euro. They combine the programmability and borderless nature of cryptocurrencies with the low volatility of traditional currencies, making them suitable for a range of fintech and payment applications. While initially emerging to support on-chain payments in cryptocurrency trading, stablecoins have broadened their potential to transfer fiat value in real-time across borders for various economic activities. The market has seen dramatic growth, expanding from approximately \$6 billion in 2019 to around \$250 billion by mid-2025, reflecting a compound annual growth rate exceeding 80%. Projections suggest this growth will continue, with stablecoins potentially handling \$50 trillion in annual payments by 2030 and reaching a market size of \$2 trillion by 2028 or even \$3.7 trillion by the end of the decade. This trajectory signifies stablecoins' potential shift from a niche product to a mainstream financial tool.



Source: Bloomberg

CORE USE CASES AND ECONOMIC IMPACT

Stablecoins dominate crypto trading, comprising over two-thirds of on-chain transactions and expanding via tokenization of assets like equities and bonds. They slash cross-border remittance fees from 6.6% to 0.5%-3%, enable dollarization in emerging markets akin to \$1.2T offshore USD, and boost B2B payments with \$3B monthly volume and 90% fee cuts. Yet, domestic adoption lags due to efficient systems amid illicit use concerns.

1. **Money for Crypto Traders and Tokenized Assets:** stablecoins are a proven and dominant use case in crypto trading, representing over two-thirds of all on-chain crypto transactions as a stable medium of exchange. This role is expected to expand with the increasing tokenization of traditional financial assets, such as money market funds, equities, and bonds, as major institutions are already providing such instruments.
2. **Cross-Border Payments and Remittances:** Stablecoins offer significant improvements over traditional systems, providing near-instant settlement and lower costs. While the global average remittance fee is around 6.6%, stablecoins can reduce costs to 0.5%-3.0% of the transfer amount. However, the "stablecoin sandwich" model—converting local fiat to stablecoin and back—can introduce friction, although improving liquidity in fiat-to-stablecoin pairs could make it more advantageous.
3. **Dollarization and Emerging Markets:** In economies facing high inflation, untrusted governments, or inefficient payment systems, stablecoins act as an accessible dollar proxy and a store of value, hedging against currency depreciation and promoting financial inclusion for the unbanked through mobile wallets. The estimated \$1.2 trillion in physical USD cash notes held offshore provides an analogy for the potential scale of this demand for stablecoins.
4. **B2B Payments:** The B2B payments market, traditionally hindered by costly intermediaries and slow settlement, is a prime use case for stablecoins. Monthly stablecoin volumes tied to B2B activity reached approximately \$3 billion in February 2025, for uses such as vendor payments, supplier invoicing, and collateral transfers. Stablecoins offer quicker settlement and significant fee savings (up to 90% compared to international credit card processing).

5. Domestic Payments and Illicit Activity: Widespread adoption for everyday domestic payments in developed markets like the US is met with skepticism, given existing efficient and inexpensive payment systems and consumer preferences for traditional banking benefits like rewards and fraud protection. Stablecoins are also a proven tool for illicit activity, offering pseudonymity and ease of transfer over long distances without physical interaction. However, authorities are expected to impose stricter enforcement measures if this becomes a primary driver of adoption.

REGULATORY LANDSCAPE: A GLOBAL OVERVIEW

The GENIUS Act provides a regulatory framework for U.S. dollar stablecoins. Issuers must hold 100% reserves in high-quality liquid assets like USD cash, T-bills, or central bank deposits, to guarantee 1:1 redemption. U.S.-issued stablecoins are prohibited from paying interest and are not eligible for Fed insurance, to avoid competition with traditional banks. In case of issuer bankruptcy, stablecoin holders have priority claims—similar to insured bank depositors.

The regulatory environment for stablecoins is rapidly evolving, with different regions adopting distinct approaches to manage their growth and inherent risks.

1. United States: The GENIUS Act: The US has taken a significant step with the guiding and establishing a national innovation for US Stablecoins (GENIUS) Act, signed into law by President Trump in July 2025. This Act establishes the first federal framework for stablecoins, placing issuers under a regulatory regime inspired by bank regulations. Key provisions mandate 1:1 reserve backing with high-quality, liquid assets (e.g., US Treasury bills with maturities under 93 days, insured bank deposits), prohibit interest payments to prevent competition with banks, and require monthly disclosures and annual audits for large issuers. The Act empowers existing financial agencies and establishes a Stablecoin Certification Review Committee (SCRC) to oversee larger issuers and state licensing. Both traditional banks and credit unions can issue stablecoins, while non-financial corporate issuers require SCRC approval. This legislation aims to provide clarity and extend US financial oversight, including AML/CFT and sanctions compliance.

2. Europe: MiCA and the Digital Euro: Europe leads in digital asset regulation with the Markets in Crypto-Assets (MiCA) framework, in full effect for stablecoins since December 2024 (with stablecoin-specific rules active since June 2024). MiCA imposes strict requirements on reserves, governance, and supervision, effectively banning algorithmic stablecoins, and caps non-euro stablecoins' daily transaction volumes at €200 million to protect monetary sovereignty. Concurrently, the European Central Bank (ECB) is advancing its digital euro project, envisioned as a public CBDC to ensure Europeans' access to a risk-free digital means of payment as cash use declines, reducing reliance on unregulated stablecoins.

3. Asia-Pacific: Diverse Approaches. The APAC region presents a diverse regulatory landscape. China has banned cryptocurrency trading but champions its digital yuan (e-CNY) CBDC as a strategic tool for sovereign digital payment and RMB internationalization. Japan lifted its ban on foreign-issued stablecoins and is exploring their use for cross-border payments, with the Bank of Japan piloting a digital yen. Singapore has a comprehensive framework for single-currency stablecoins, requiring stringent reserve assets and minimum capital. India remains restrictive,

with limited stablecoin adoption due to regulations and the dominance of its UPI system, and is piloting a digital rupee.

IMPACT ON TRADITIONAL FINANCIAL INSTITUTIONS

The rise of stablecoins is prompting traditional financial players to adapt their strategies, rather than face outright displacement.

1. Banks: Face deposit disintermediation risk, with the US Treasury estimating potential outflows of \$6.6 trillion, which could impact lending, margins, and funding. However, the GENIUS Act's prohibition of interest on stablecoins mitigates this risk. Banks are responding by developing private/permissioned stablecoin networks (e.g., JPMorgan's Link and JPM Coin), issuing bank-backed stablecoins, and integrating with CBDC models. They also leverage enhanced compliance to offer stablecoin services safely.

2. Payment Networks (Visa, Mastercard): Are unlikely to be displaced in developed markets due to entrenched consumer habits, wide merchant acceptance, and value-added features like rewards and fraud protection. Instead, stablecoins are viewed as complementary, creating new payment flows in niches where cards are less dominant, such as B2B payments, cross-border remittances, and trading/settlement. Both Visa and Mastercard are actively integrating stablecoin settlement, facilitating stablecoin-linked cards, and building interoperability solutions.

CHALLENGES AND RISKS IN THE STABLECOIN ECOSYSTEM

Despite their potential, stablecoins face significant challenges and risks that could hinder broader adoption.

1. De-pegging and Reserve Risks: The fundamental risk is a stablecoin losing its 1:1 peg due to inadequate reserves, poor asset management, or sudden redemptions.

2. Regulatory and Compliance Risks: The fragmented and evolving regulatory landscape, with varying rules across jurisdictions, creates uncertainty. Risks include money laundering, sanctions evasion, and illicit use.

3. Financial System Contagion and Run Risk: Large-scale redemptions could force rapid liquidation of reserves, potentially amplifying market stress and spilling over into traditional financial systems as stablecoins integrate deeper.

4. Consumer Adoption Roadblocks: Widespread consumer adoption for everyday spending remains distant due to user inertia, a lack of compelling incentives, merchant integration challenges, and market fragmentation. Consumers often perceive no clear benefit over established payment methods.

Stablecoins spur traditional finance adaptation over displacement. Banks risk \$6.6T deposit outflows but counter via permissioned networks (e.g., JPM Coin), backed stablecoins, and CBDC integration, aided by GENIUS Act curbs. Visa/Mastercard remain entrenched in consumer markets, complementing stablecoins in B2B, remittances, and trading through settlements and interoperability.

Stablecoins risk de-pegging from inadequate reserves or redemptions, regulatory fragmentation enabling illicit use, and contagion from mass liquidations. Consumer adoption stalls due to inertia and superior alternative, while issuers' yield dependent models falter amid falling rates, all impeding widespread use.

5. Business Model Sustainability: Many stablecoin issuers generate revenue from yields on reserve assets, making their profitability sensitive to declining interest rates or high redemption demands.

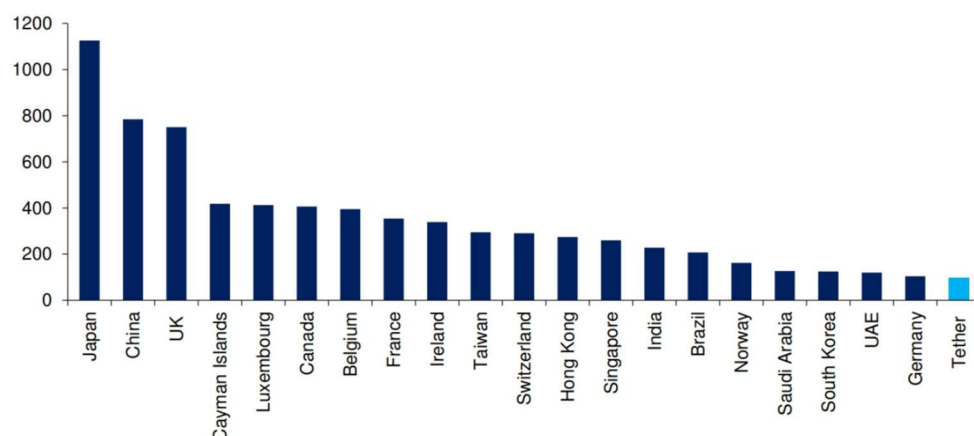
STRATEGIC IMPLICATIONS FOR GLOBAL CURRENCY DOMINANCE

The rise of stablecoins is deeply intertwined with the geopolitical battle for global currency dominance, with major blocs pursuing differing strategies.

1. US Dollar Hegemony: The US government views stablecoins as a key response to defend the dollar's position in global payments, opting for a private-sector solution over CBDCs. The core aim is to keep the world on dollar payment rails, which reinforces the dollar's role as the global savings and reserve currency. By requiring stablecoins to be backed by US Treasuries, the GENIUS Act seeks to generate new demand for US debt, although this demand is concentrated in short-term T-bills and its macroeconomic impact is debated. While a strong dollar relies on confidence in US monetary policy, threats to Fed independence could undermine the stablecoin-driven dollarization push.

The true fiscal benefit of stablecoins may lie instead in their ability to anchor global private sector use of the dollar, strengthening the USD's role in global invoicing and preserving international demand for U.S. assets. In doing so, stablecoins could help secure foreign savings in dollar-denominated instruments, indirectly reinforcing U.S. sovereign credit and reserve currency status.

99% of stablecoins are pegged to the Dollar; of these, Tether is the most successful, with the great merit of being fully backed by US Treasuries. As a result, Tether appears among the world's leading holders of Treasuries, acting as a Money Market Fund.



Source: Deutsche Bank

Stablecoins fuel geopolitical currency rivalry. The US champions private dollar stablecoins via the GENIUS Act to bolster USD hegemony and T-bill demand, countering CBDC alternatives. Europe counters with EUR stablecoins for sovereignty and global role, complementing the digital Euro. China advances RMB but faces hurdles from managed capital and dollar stablecoin access in the Global South.

2. The Euro's Global Ambitions: Europe faces strategic considerations regarding domestic payments sovereignty and increasing the euro's international role. The US push for dollar stablecoins necessitates Europe developing its own ecosystem of bank and corporate-issued EUR stablecoins as a competitive hedge. This would support EUR invoicing and savings, capitalizing on Europe's improving potential as a global savings asset. While the digital euro is the ECB's preferred instrument for domestic payments, EUR stablecoins issued by European entities could offer a competitive alternative, especially for cross-border payments, potentially creating a new pooled EUR asset through their reserves.

3. China's RMB Internationalization: Dollar stablecoins pose a more direct threat to China's efforts for RMB internationalization, particularly in the Global South corridors where the US correspondent banking system has retreated. China has invested in its own cross-border payment infrastructure. However, China's managed capital account and limited offshore RMB deposits constrain its ability to compete in a stablecoins world. Easy access to dollars via stablecoins in the Global South could leapfrog China's gains in encouraging RMB usage and China-backed systems, intensifying the battle for influence.

YIELD-BEARING STABLECOINS

In the crypto world, staking means locking up a crypto assets to help operate a blockchain network — for example, to verify transactions or secure the system. In return, the investor earns rewards — usually paid in the same cryptocurrency. It's similar to earning interest on money in a savings account. Some new stablecoins or platforms now offer a yield (or return) for holding them, often by lending them out or investing the backing reserves.

Staking activity out of stablecoins refers to earning a yield or interest on stablecoin holdings, effectively making them an income-generating asset rather than solely a medium of exchange or store of value. While traditionally, major stablecoin issuers like Tether (USDT) and Circle (USDC) do not pay interest to their individual holders, they themselves generate substantial revenue from the interest income on the high-quality liquid assets, primarily US Treasuries, that back their stablecoins. For instance, Tether reported net profits of approximately \$13 billion in 2024, largely driven by interest on US Treasuries. Circle, the issuer of USDC, recently went public with a share price of \$31, which has soared to \$134 today, pushing its market capitalization beyond \$30 billion.

However, the landscape is evolving, with a new category of yield-bearing stablecoins emerging, representing about 3% of the market and showing significant growth (Deutsche Bank). These designs aim to integrate traditional finance with decentralized finance (DeFi) innovations. For example, PayPal began offering a 3.7% annual yield for holding its stablecoin on PayPal in April 2025. In the broader DeFi ecosystem, stablecoins are actively used for yield generation and asset swaps without intermediaries.

The potential impacts and developments of staking activity out of stablecoins are multifaceted:

Regulatory Framework: The US GENIUS Act, signed into law in July 2025, explicitly prohibits US-issued stablecoins from paying interest to holders. This regulation is designed to prevent competition with traditional banks

and mitigate the risk of deposit disintermediation, where large amounts of capital could shift from bank deposits to interest-bearing stablecoins, potentially harming bank lending, margins, and funding.

For consumers, the ability to earn yield makes stablecoins a more compelling store of value, especially in emerging markets where users might prefer them over banks for better yield or as a hedge against inflation and capital controls.

While issuers profit from reserve yields, their profitability is sensitive to interest rate fluctuations; declining rates or high redemption demands can put pressure on their margins. Future regulatory changes concerning yield sharing with consumers could also significantly alter the competitive dynamics among issuers. The emergence of yield-bearing stablecoins introduces new competitive pressures within the digital asset space and potentially against traditional financial products like money market funds. The continued development of these offerings could accelerate institutional and corporate adoption, as companies seek to optimize treasury management, liquidity, and automated payments

CONCLUSION

Stablecoins represent a significant technological and financial innovation, rapidly transitioning from a crypto-native tool to a potential mainstream component of the global financial system. Driven by compelling advantages in cost efficiency, speed, and 24/7 availability for cross-border payments, remittances, and B2B transactions, they offer particular benefits in emerging markets seeking inflation hedges and financial inclusion.

The passage of the US GENIUS Act marks a pivotal moment, providing regulatory clarity and endorsing dollar stablecoins as a private-sector mechanism to reinforce US dollar dominance and channel demand towards US Treasuries.

While traditional financial institutions like banks and card networks are actively adapting and integrating stablecoin solutions, they largely view them as a complementary layer that extends their reach rather than a direct threat to their core business models, particularly in developed markets. However, significant challenges remain, including the persistent risks of de-pegging, regulatory fragmentation, security vulnerabilities, and the lack of compelling incentives for widespread consumer adoption in everyday transactions.

The ultimate success and long-term impact of stablecoins will depend on their ability to overcome these hurdles, achieving true interoperability, global regulatory harmonization, and demonstrating clear, tangible benefits that drive broad economic uptake beyond their current niches. The "proof of the pudding will be in the paying".

In our view, the global development of stablecoins will become a supportive factor for the US dollar, which has recently lost some shine due to tariff policies and April's pressure on Treasury yields. The dominance of the Dollar as the reference Currency for the private Stablecoin market reinforces its strength and superiority over other global reserve currencies.