Stablecoins: Better than their reputation among economists

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Professor Dr. Peter Bofinger

Universität Würzburg and CEPR

1. The bad reputation of stablecoins

BIS (2025) on stablecoins

- "Stablecoins offer some promise on tokenisation but fall short of requirements to be the mainstay of the monetary system when set against the three key tests of singleness, elasticity and integrity."

- " (…) an inherent tension between their promise to always deliver par convertibility (ie be truly stable) and the need for a profitable business model that involves liquidity or credit risk."

- "If stablecoins continue to grow, they could pose financial stability risks, including the tail risk of fire sales of safe assets."

- "Practical, usable decentralised money is insecure."

- "(…) stablecoins of various stripes have seen substantial deviations from par (…), highlighting the fragility of their peg".

Source: https://www.bis.org/publ/arpdf/ar2025e3.htm

Fears of ECB Executive Board Members

Piero Cipollone: (…) the measures taken by the new US Administration to promote crypto-assets and US dollar-backed stablecoins raise concerns for Europe's financial stability and strategic autonomy.

https://www.ecb.europa.eu/press/key/date/2025/html/ecb.sp250408~40820747ef.en.html

Philip Lane: This means the domestic currency would risk losing its status as the dominant currency for expressing prices and settling most trades. Although 'dominant' lacks a precise defining threshold, as the share of transactions settled in the domestic currency decreases, the capacity of the central bank to implement effective monetary policy and maintain price stability is significantly impaired.

https://www.ecb.europa.eu/press/key/date/2025/html/ecb.sp250320_1~41c9459722.en.html

2. What are stablecoins?

A classification of payment systems

Payment system	Payment object	Payment instrument	Payment infrastructure	Ledger
Cash-based system	Physical central bank money (cash)	Banknote	**Direct payment** (peer-to-peer)	No Ledger
Bank-based system	Commercial bank deposits	Cheque, online-banking, credit or debit cards, digital wallets	**Indirect payment** organized by intermediaries: central bank and private PSPs (Target, SEPA, Visa, Mastercard, Paypal, SWIFT)	Central
D€-based system	Digital central bank money (D€ deposits)	Digital wallets, credit cards, online banking	**Direct/indirect payment**, integrated in the commercial bank deposit scheme ("Waterfall functionalities")	Central
Stablecoin-based system	Stablecoin tokens	Digital wallets	**Direct payment** via crypto exchanges (e.g. Binance Coinbase) and/or blockchains (e.g. Ethereum)	Central: Coinbase Distributed: Blockchain

Two basic stablecoin designs

Bill-backed (Tether)

| Assets	Liabilities
US Treasuries (62%)	Stablecoins issued: 174 USD billion
Other cash-like assets (15 %)	Equity: 7 USD billlion
Other investments (23%): Loans, metals, Bitcoin (5 %)	
Total: 181 USD billion	Total 181: USD billion

Tether Reserves Report (30 September 2025)

Bank-backed (MICA)

| Assets	Liabilities
Bank deposits (>60%)	Stablecoins issued
Other assets, e.g.treasuries, bonds overnight repurchase agreements, secured loans, Bitcoin (<40%)	Equity
Total	Total

60% backing applies to „significant" stablecoins

3. Stablecoin performance

Market capitalization of stablecoins shows no uptick in growth since 2025

Market Capitalization of Tether and USDC

Legend: Tether + USDC (USD) — Tether and USCD (Logarithmic)
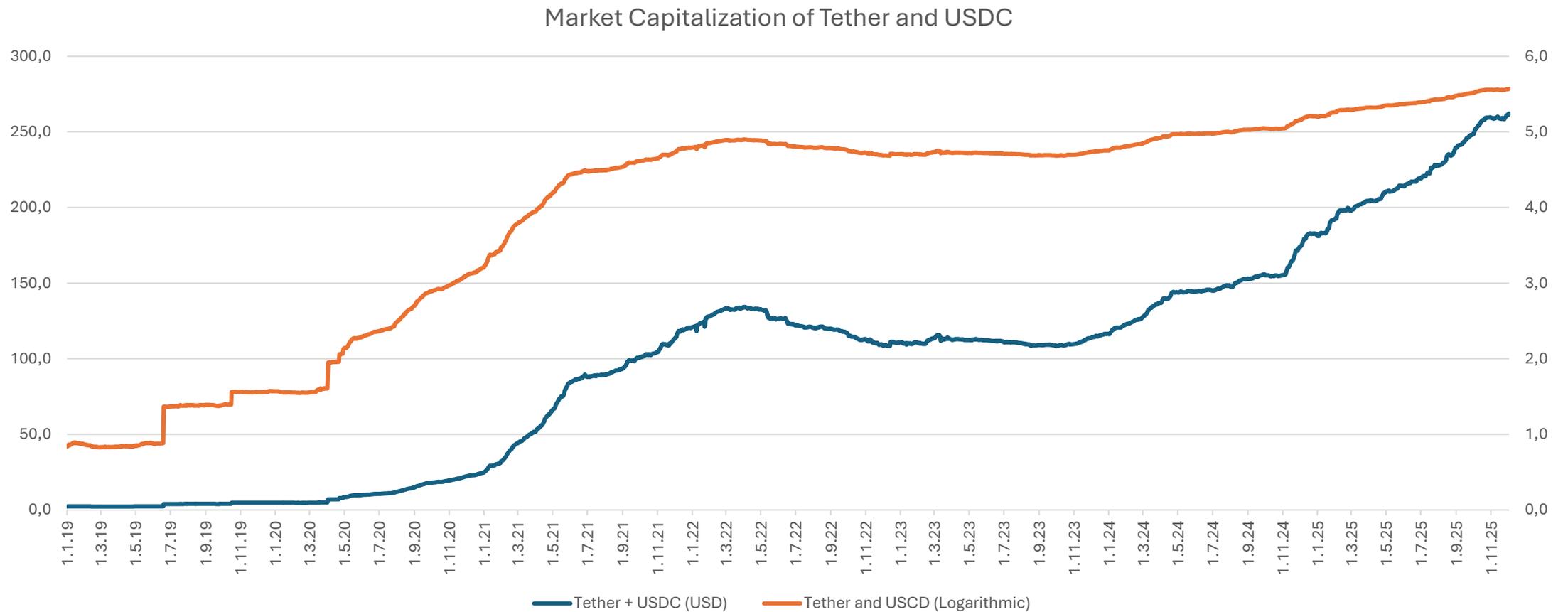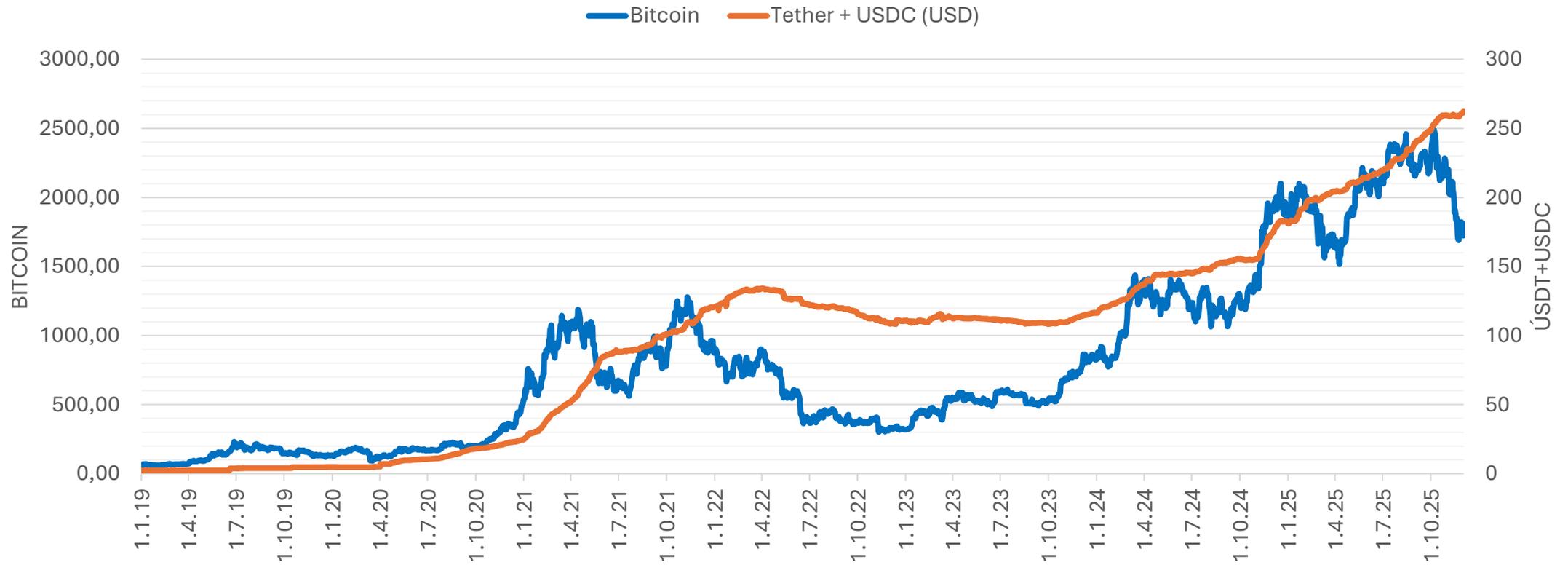
Source: CoinGecko

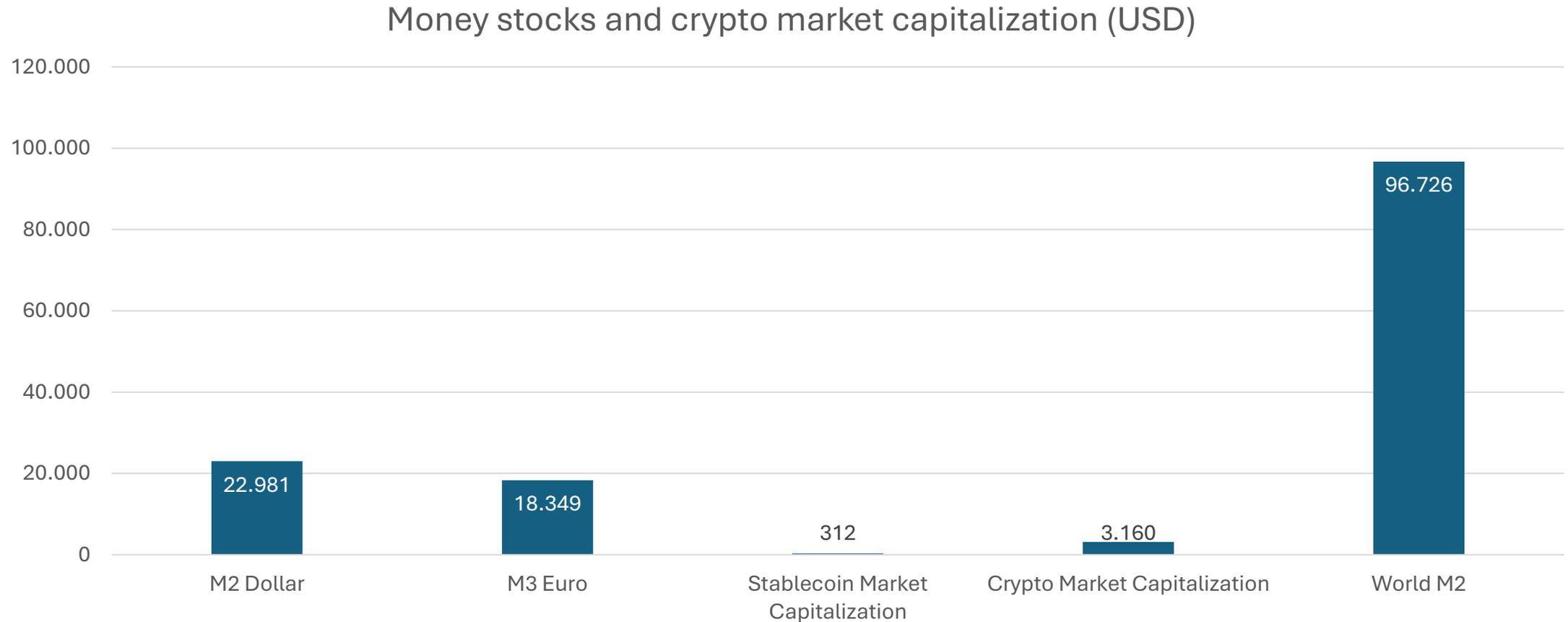# The dominant stablecoins become more and more stable: Daily deviations from parity (in percent)
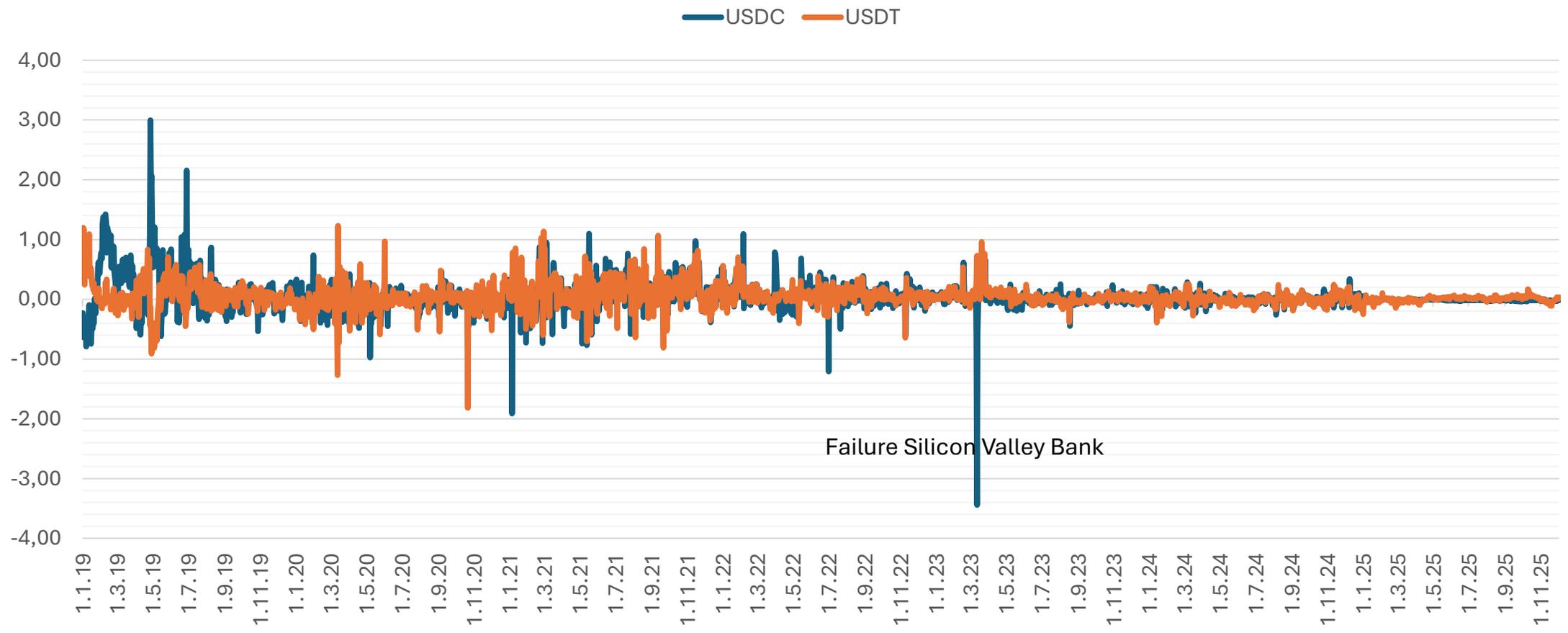
Source: CoinGecko

Stablecoins unaffected by „crypto winters"

Market Capitalization (USD billion)

Stablecoin are still a niche market

Money stocks and crypto market capitalization (USD)

M2 Dollar	M3 Euro	Stablecoin Market Capitalization	Crypto Market Capitalization	World M2
22.981	18.349	312	3.160	96.726

Sources: FRED St. Louis, CoinGecko, MacroMicro (most recent data)

So far negligeable issuance of Euro stablecoins

EUR **million**

Legend: STASIS EURO (EURS) · EUR CoinVertible (EURCV) · Monerium EUR emoney (EURE) · AllUnity EUR (EURAU) · Euro Tether (EURT) · VNX EURO (VEUR)
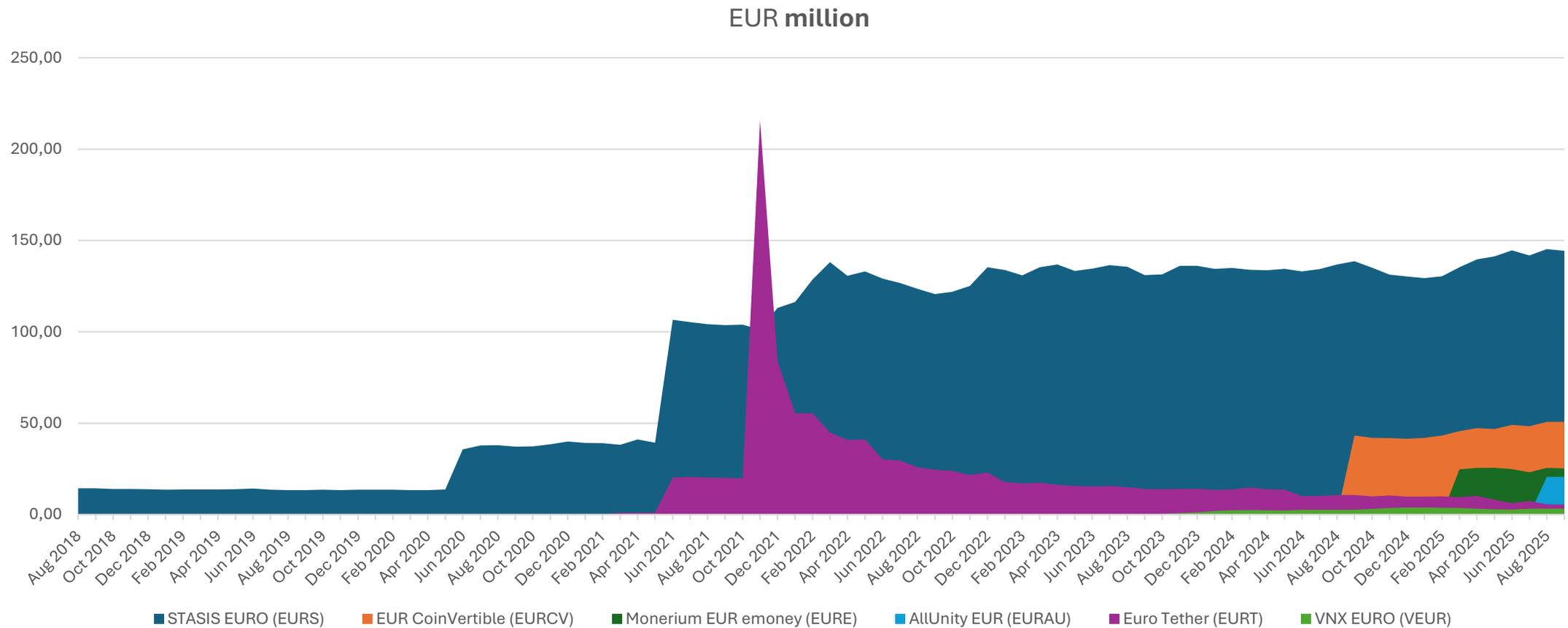
Source: Statista

Network effects favor USD: The concept of „common knowledge"
Berg et al. (2024)

- "Common knowledge is a type of higher-order public knowledge which is not only publicly known, but **I know that you know it and you know that I know that you know it,** to the limit of that reasoning."

- "The concept is that I know what a dollar is worth, and I know that you know what a dollar is worth, and you know that I know that you know what a dollar is worth."

- "**The price of a dollar** is not only common knowledge among US consumers, but among a much larger global population. It is plausible that it is **the most well-known price in the world**. Our claim is that this common knowledge is the property that any USD stablecoin, in effect, free-rides on."

4. Use case and business case

Stablecoins and the „singleness of money"

- *President Lagarde: "a euro is a euro is a euro, just like a rose is a rose is a rose" (30 October 2025)* https://www.ecb.europa.eu/press/press_conference/monetary-policy-statement/2025/html/ecb.is251030~4f74dde15e.en.html

- BIS (2025): „Common knowledge of the value of money has a shorthand – the "**singleness of money**" – where money can be **issued by different banks and accepted by all without hesitation**." https://www.bis.org/publ/arpdf/ar2025e3.htm

- But what is then the case for the Digital Euro?

Stablecoins can by design be more „safe" than bank assets

- For large investors: Bank deposits are **not „safe"**:
  - **Article 55 BRRD**: **Bail-in** will potentially apply to any liabilities of the institution not backed by assets or collateral. It will not apply to deposits protected by a deposit guarantee scheme, short-term inter-bank lending or claims of clearing houses and payment and settlement systems (…) client assets, or liabilities such as salaries, pensions, or taxes.
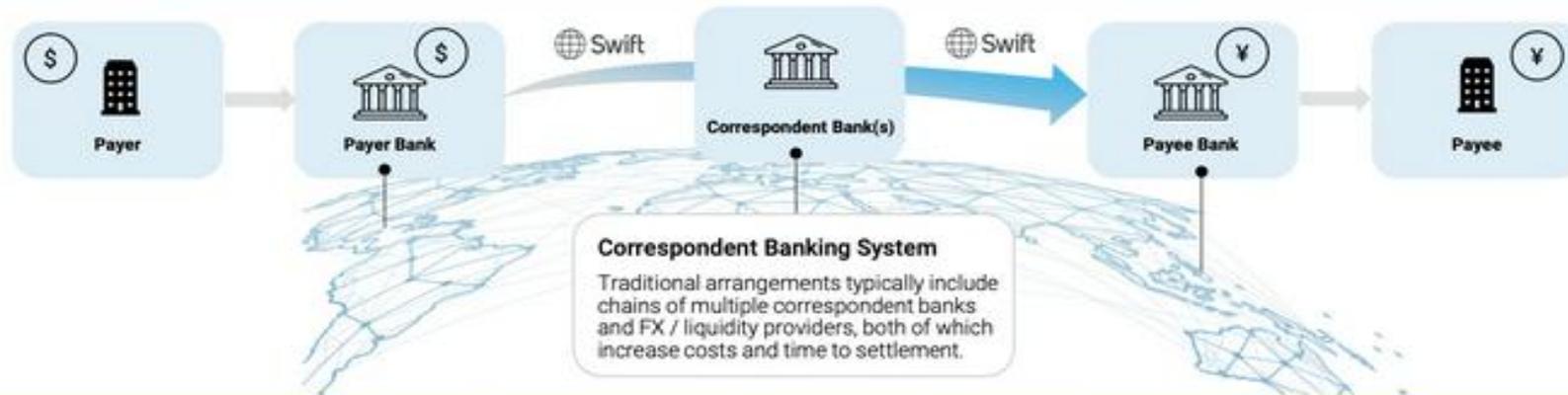- By design: **Bill-based stablecoins** can offer almost safe assets.

For international payments the stablecoin payment system provides direct payment

Stablecoin Payments

Stablecoin Payment Flows vs. Traditional Cross-Border Payments

FINANCIAL TECHNOLOGY PARTNERS

Traditional Cross-Border Payments: Time to Settlement Typically 2 – 5 Business Days

Payer → Payer Bank → Swift → Correspondent Bank(s) → Swift → Payee Bank → Payee

Correspondent Banking System
Traditional arrangements typically include chains of multiple correspondent banks and FX / liquidity providers, both of which increase costs and time to settlement.

Stablecoin Payments: Time to Settlement < 1 Day

Payer → Fiat converted to stablecoin via on-ramp → Blockchain * → Stablecoin Orchestration Platform → Stablecoin converted to fiat via off-ramp → Blockchain * → Payee

* can be different chains

Cross-border payment effected onchain, orchestration platform connects to multiple off-ramps

Source: https://fintechnews.sg/117620/blockchain/stablecoins-to-transform-payments/

Comparing SWIFT und Stablecoins payments

| Feature	Traditional Payment via SWIFT	Payment via Stablecoins
Speed	Slow (typically 1–5 business days), dependent on bank processing times and time zones.	Near-instantaneous (seconds to minutes), 24/7/365.
Cost	High (often $10 to $50 or more per transfer), as multiple correspondent banks charge fees.	Very Low (typically only the blockchain transaction fee/Gas Fee), often just a few cents.
Mechanism	Messaging network between banks that sends payment instructions (settlement happens separately via accounts at correspondent banks).	Direct value transfer on a Blockchain (Distributed Ledger Technology), transaction and settlement are nearly simultaneous.
Accessibility	Requires a bank account and institutional access.	Requires only a digital wallet and internet access (promotes financial inclusion).
Transparency	Limited for end-users; SWIFT gpi offers better tracking.	High; transactions are publicly traceable on the Blockchain ledger.
Regulation	Globally established and comprehensively regulated (over 200 countries, 11,500 institutions).	Fragmented and still evolving; regulatory acceptance is not universal.
Operating Hours	Dependent on bank business hours and cut-off times.	Round-the-clock and uninterrupted.
Currency Conversion	Often associated with additional costs due to conversion fees/margins charged by banks.	Direct transaction in a stable digital asset (e.g., Stablecoin pegged to USD), no currency conversion until the final exchange into local fiat currency (On-/Off-Ramp).

Use cases for stablecoins: Means of payment

- „Vehicle currency" on **crypto exchanges**: comparable to the role of the USD as vehicle currency on foreign exchange markets. A vehicle currency increases the liquidity of a market: strong network effects favoring USDT.
- **International transactions (remittances)**: High costs and long duration of indirect payments via SWIFT. Network effects of USDT due to global role of dollar (language) and reputation of Tether.
- **Illegal transactions**: Blockchain transactions provide anonymity comparable to transasctions with USD banknotes.
- **Unclear**: Can the stablecoin payments system become a competitor for the bank-based indirect retail payments systems in high-income countries?
  - Is a decentralized direct payment system faster and cheaper than the existing centralized indirect payment systems?
  - Is a system which requires the holding of system specific payment objects more attractive than systems which operate with the existing payment objects (i.e. Bank deposits)?
  - „Cash-in-advance constraint": Blockchain does not allow no overdraft facilities.

Use cases of stablecoins: Store of value Stablecoins as a digital form of USD-cash

- In general, stablecoins are not an attractive store value
  - No interest payment
  - No lender-of-last resort backing
  - No deposit insurance
- Due to the treasury backing stablecoins could be more attractive for large investors than unsecured bank deposits. But investors could hold treasuries directly or invest in money market funds.
- There is a use case for investors in countries with currency controls and an unstable domestic currency with n unstable domestic banking system: Alternative for USD banknotes as a store of value.

USD Currency/US GDP (Percent)
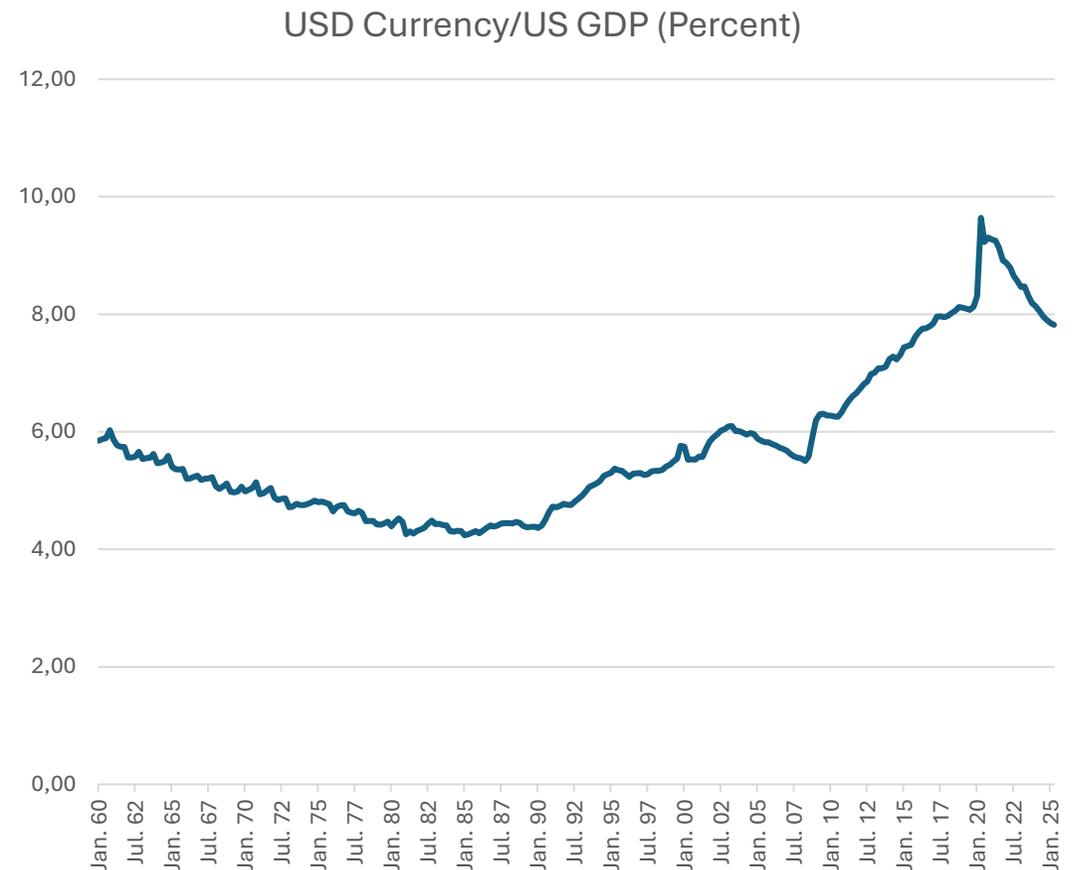
# The business case for stablecoins: Privatizing seignorage
Beware of low interest rates

- Stablecoin issuers profit from seignorage income which so far is generated by commercial banks (low/zero interest deposits) or the central bank (non-interest bearing cash)

Stablecoin issuer	
Assets	Liabilities
Interest-bearing highly liquid assets	Non-interest bearing stablecoins

- Issuers have no costs for providing a payment infrastructure which is provided by exchanges and blockchain providers.

- With growing competition, interest-bearing stablecoins will reduce seignorage earnings

- Banks can respond by offering interest payments on sight deposits

- But the income of issuers depends on short-term interest rates which can be zero or even negeative

ECB Deposit Facility rate
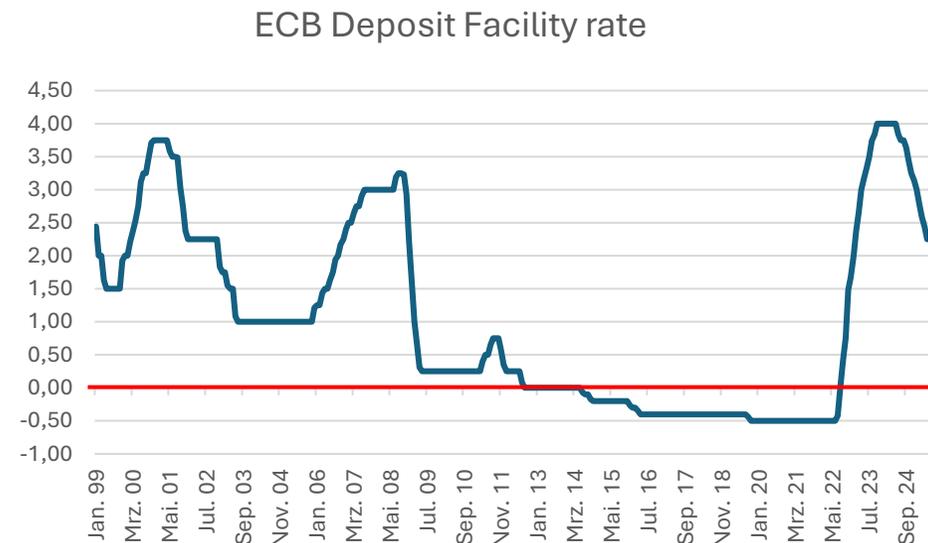
5. Macroeconomic implications

Implications for the stability of the financial system

- **Bank-based stablecoins** create a dangerous **doom-loop** between the banking system and the stablecoin universe: The case of the Silicon Valley Bank

- **Bond-based stablecoins** can affect the markets for goverment bonds. But in the case of liquidity shortages on these markets, other market participants (incl. central banks) are able to make riskless profits.

a) USDT and USDC reserve assets and assets under management of the 20 largest MMFs

(Q3 2025, USD billions)

MMFs
USDT
USDC
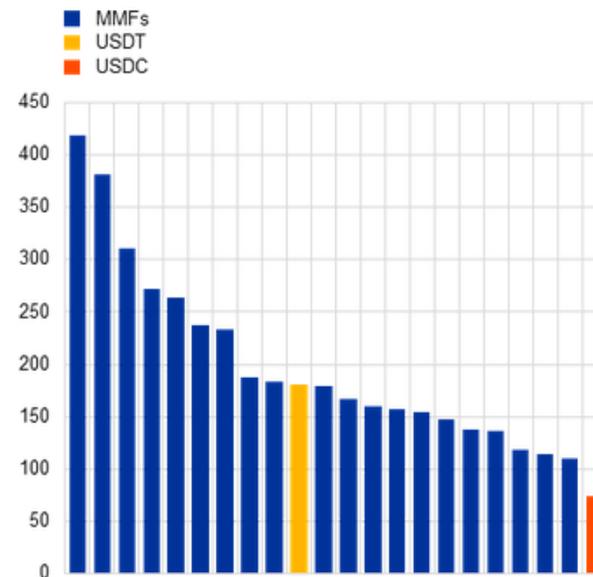
Source: ECB

Can stablecoin issuer drive out traditonal banks?

- **Bank-based stablecoins** are pure intermediaries exchanging bank deposits into stablecoins.

- **Bond-based stablecoins** can create money (bank deposits + stablecoins) by purchasing bonds on capital markets.

- **Traditional banks** are required as long as the private sector needs additional bank loans. In this case central banks can still control the financial system with its traditional monetary policy instruments

Bank loans to the private non-financial sector
(percent of GDP)
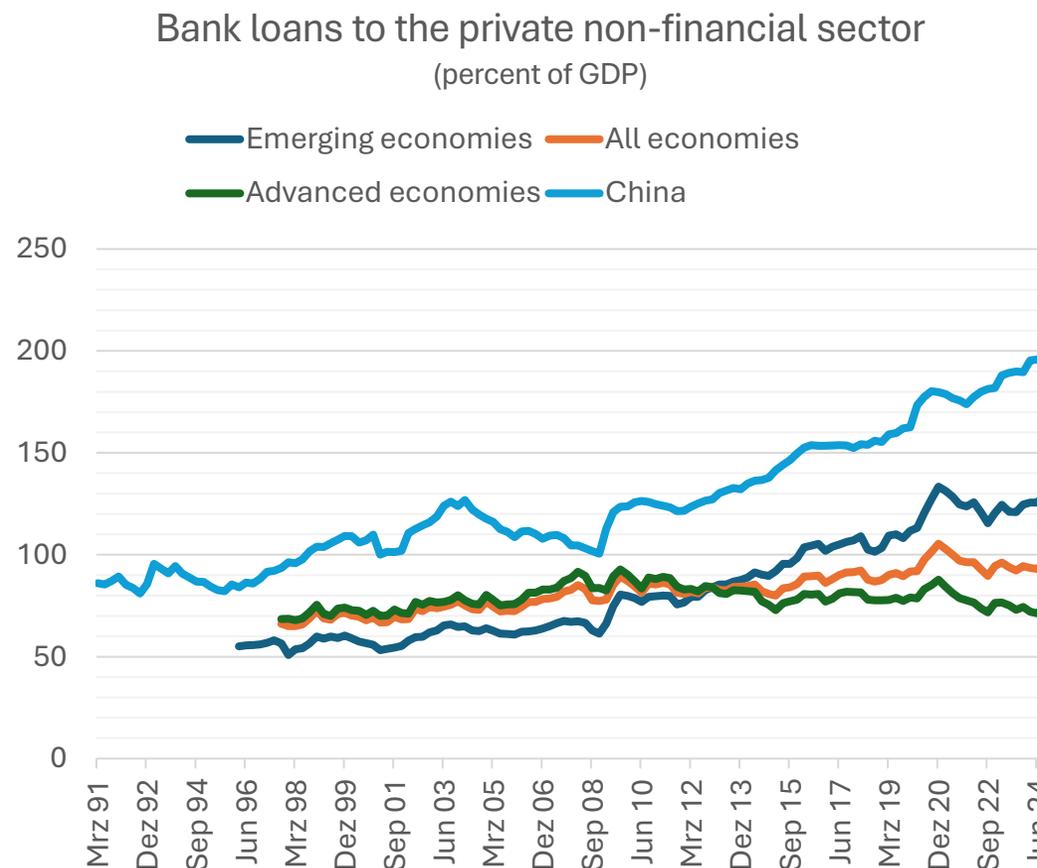
Stablecoin issuance: bank-based stable coin

Household holds bank deposit

Private Household	
Assets	**Liabilities**
1000 Bank deposit	

Bank	
Assets	**Liabilities**
1000 Loan	1000 Deposit Household

Household purchases stablecoin

Private Household	
Assets	**Liabilities**
1000 Stablecoin	

Bank	
Assets	**Liabilities**
1000 Loan	1000 Deposit Stablecoin

Stablecoin Issuer	
Assets	**Liabilities**
1000 Bank deposit	1000 Household

➢ Money stock (=bank deposits + stablecoins) remains constant

Stablecoin issuance: Bond-based stablecoin

1) Household holds bank deposit. Investor holds bond.

Private Household

Assets	Liabilities
1000 Bank deposit	

Bank

Assets	Liabilities
1000 Loan	1000 Deposit Household

Investor

Assets	Liabilities
1000 Bond	

Government

Assets	Liabilities
	1000 Bond

2) Household purchases stable coin. Stablecoin issuer purchases bond from investor.

Private Household

Assets	Liabilities
1000 Stablecoin	

Bank

Assets	Liabilities
1000 Loan	1000 deposit investor

Investor

Assets	Liabilities
1000 Bank deposit	

Government

Assets	Liabilities
	1000 Bond

Stablecoin Issuer

Assets	Liabilities
1000 Bond	1000 Household

3) Government issues new bond. Investor purchases new bond

Private Household

Assets	Liabilities
1000 Stablecoin	

Bank

Assets	Liabilities
1000 Loan	1000 Government

Investor

Assets	Liabilities
1000 Bond	

Government

Assets	Liabilities
1000 Bank deposit	2000 Bond

Stablecoin Issuer

Assets	Liabilities
1000 Bond	1000 Household

4) Government makes payment to household

Private Household

Assets	Liabilities
1000 Stablecoin	
1000 Bank deposit	

Bank

Assets	Liabilities
1000 Loan	1000 Household

Investor

Assets	Liabilities
1000 Bond	

Government

Assets	Liabilities
	2000 Bond

Stablecoin Issuer

Assets	Liabilities
1000 Bond	1000 Household

The ECB's fear of dollarization

Philip Lane (2025):

- A second scenario imagines a new world with an increasing prevalence of stablecoins that are effectively backed by assets denominated in a foreign currency. Given that the majority of existing stablecoins are linked to the US dollar, this is not a purely hypothetical scenario. At some level, dollar stablecoins make it easier for European households to acquire low-risk dollar assets (typically, it is not easy to open a dollar bank account for European residents)."

Source: https://www.bis.org/review/r250324l.pdf

But:

- It is already today easy for European households to open a dollar bank account.

- Currencies are like languages. Dollarization can only be observed in countries with unstable domestic currencies.

- There is no use case for stablecoins and blockchain payments in the **retail sphere.** Due to effcient intermediaries at the national/euro level the indirect payment scheme functions well**.**

Is the Digital Euro an alternative to stablecoins?

- Lane (2025): „The digital euro is also **an effective tool to limit the dominance of foreign digital currencies**, including the monetary sovereignty risks created by widely-adopted foreign-currency stablecoins."

- So far, the D€ is not designed for **transactions beyond the euro area**. Stablecoins are mainly uses for cross country transactions

- The D€ is designed for **retail payments** with a low holding limit. It is not very likely that stablecoin schemes will be competitive in the retail sphere. Stablecoins are designed for wholesale transactions

- The D€ is designed for **private households**, while firms are not allowed to hold D€ deposits („automatic waterfall").

- The D€ is not designed as a store of value, while stablecoins are used in this function in countries with unstable monetary systems.

- The D€ is **not tokenized**, while stablecoins are tokenized

Summary

- The two dominant stablecoins have shown a **high degree of resilience** since 2022. Strong network effects favor USD as anchor currency.

- **Use case**: bill-based stablecoins as a safe and liquid asset that can be used for direct international payments. Limited potential in the retail sphere.

- **Business case**: Seigniorage profits, but risk of of low/zero interest rates

- **Financial stability**:
  - Bank-based stablecoins (MICA) pose serious risk for the stability of banks and vice versa („doom loop)
  - Bill-based stablecoins can cause liquidity shortages on capital markets. But this opens a potential for stabilizing arbitrage transactions.

- **Monetary policy**:
  - Bank-based stablecoins (=narrow banks) are unable to create money and credit.
  - Bill-based stablecoins can create money by lending to the government.
  - As long as traditional bank loans are required, central banks can control the macroeconomy with their traditional instruments.
  - Risk of dollarization is negligeable.

- The **D€** is no alternative to stablecoins.