

Stablecoins: When Does Innovation Become a Risk?

What widespread use of stablecoins could mean for financial stability, monetary policy and market structures.

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Contents

Summary **2**

1. Stablecoins: between efficiency gains and stability risks **3**

2. Current use and potential development of stablecoins **5**

3. Risks associated with stablecoins **6**

3.1 Deposit outflows driven by stablecoins as a risk to the real economy 6

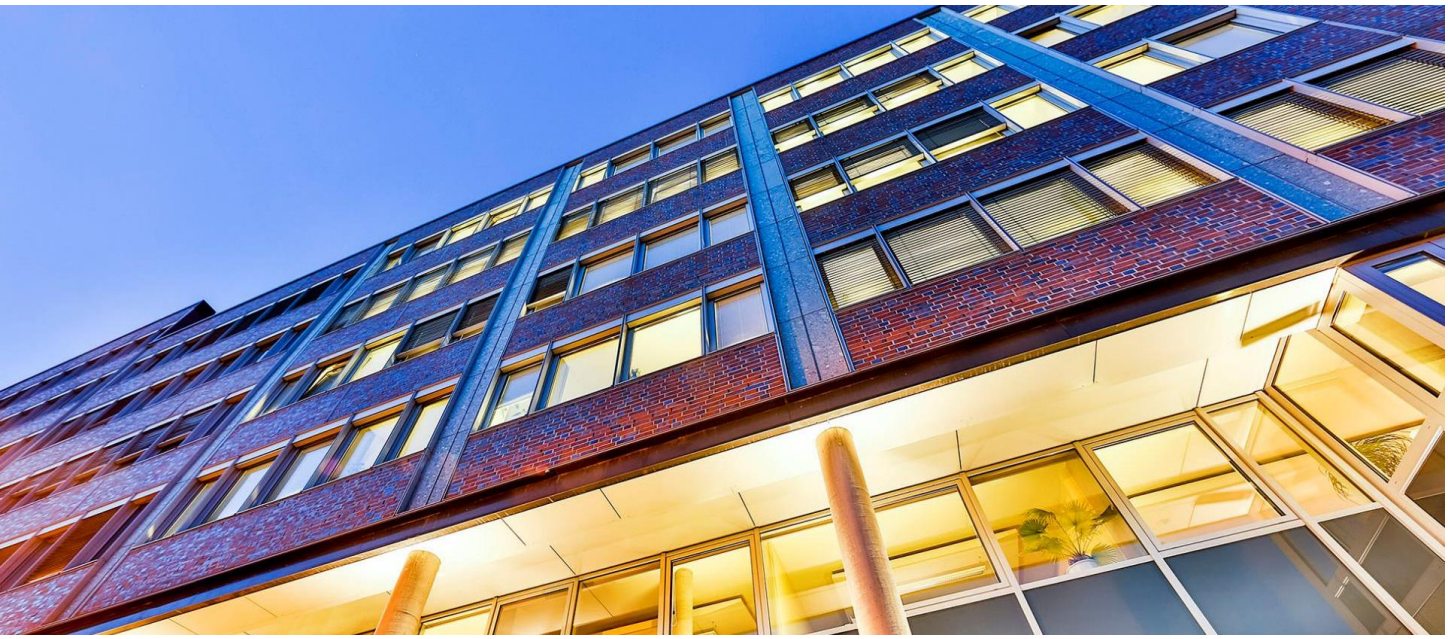
3.2 The impact of stablecoins on currencies and exchange rates 8

3.3 Increased risk of runs on stablecoin issuers 9

3.4 Erosion of the 'singleness of money' as a risk to trust 11

3.5 Fragmentation, consolidation and control over infrastructure 12

4. What are the implications for Europe? **13**



Summary

Although stablecoins have become increasingly important in recent years, they are still used almost exclusively within the crypto ecosystem. As long as this remains the case, their direct impact on banks, monetary policy and financial market stability will also remain limited. However, if patterns of use were to change and stablecoins were to become much more widely used beyond their current sphere, this could have implications for financial stability. The analysis in this paper therefore deliberately assumes a scenario in which stablecoins have achieved a high level of market penetration and are widely used as a means of payment and settlement within the financial system. This is explicitly not intended as a forecast of future market developments. The assumption is instead intended to allow the potential risks and transmission channels associated with widespread stablecoin use to be examined systematically at an early stage.

The analysis focuses on five potential impacts:

- Widespread use of stablecoins could affect how banks obtain funding and, in turn, the supply of credit to the real economy.
- US dollar stablecoins could strengthen the international role of the US dollar, with potential implications for currencies and exchange rates.
- Digital runs on stablecoin issuers could unfold more rapidly than traditional bank runs and spread to other parts of the financial system.
- A proliferation of private forms of money could put the 'singleness of money' under pressure if users have to distinguish between forms of money with different types of backing.
- Increasing consolidation in the stablecoin market could result in standards and infrastructure being shaped by a small number of providers, potentially based outside Europe.

For Europe, this gives rise to two key tasks: limiting systemic risks through a consistent regulatory framework while at the same time developing an interoperable European monetary infrastructure for the tokenised economy.

Stablecoins: When Does Innovation Become a Risk?

What widespread use of stablecoins could mean for financial stability, monetary policy and market structures.

1. Stablecoins: between efficiency gains and stability risks

As the third instalment in our series on tokenised money, this paper builds on the previous publications covering the fundamentals and use cases, adding a financial market stability perspective. There is currently considerable debate over the extent to which stablecoins could pose risks to banks, monetary policy and financial market stability. While one side points to significant risks, the other highlights potential efficiency gains in payments, treasury management and tokenised financial markets. At the same time, stablecoins are still used primarily within the crypto ecosystem, meaning their direct impact on the broader financial system remains limited. The potential risks associated with widespread use are therefore often played down on the grounds that such a market development is not currently foreseeable.

This paper takes a different approach: The analysis that follows assumes a scenario in which stablecoins have achieved a high level of market penetration and are widely used as a means of payment and settlement within the financial system.

This scenario therefore goes beyond currently foreseeable market developments. It is explicitly not a forecast. Rather, the assumption is intended to allow the potential risks and transmission channels associated with widespread stablecoin use to be examined systematically at an early stage, irrespective of how likely such a scenario is to materialise.

Before considering the potential risks associated with this scenario, it is first necessary to understand what makes stablecoins attractive to users and financial market participants and what benefits their use may offer. The paper focuses on stablecoins whose value is pegged to an official currency and is intended to be kept stable by corresponding reserves. Under the European regulatory framework, such stablecoins are classified under MiCAR (Markets in Crypto-Assets Regulation) as e-money tokens (EMTs). They combine the stability in value of major sovereign currencies with the efficiency of digital networks and could therefore become a key building block of a digital and tokenised economy. Their value is generally pegged to the US dollar or the euro, although the market is currently dominated almost entirely by US dollar stablecoins.

The history of stablecoins is something of a success story. Although stablecoins have so far served primarily as infrastructure for trading in crypto-assets, within just a few years they have developed into a market worth hundreds of billions. At the same time, new applications are beginning to emerge in areas such as payments, treasury management and tokenised financial markets. The success of stablecoins is primarily due to their practical utility. However, some of the benefits associated with them are not specific to stablecoins, but arise from the use of tokenised or DLT-based infrastructures and could, in principle, also be linked to other forms of tokenised money.

What are these benefits?

Speed: While instant euro transfers already allow payments within the euro area to be made within seconds, 24 hours a day, stablecoin payments can be settled within seconds or minutes at any time of day, both within the euro area and across its borders. They also enable immediate settlement within tokenised financial markets. This makes capital available more quickly rather than tying it up unnecessarily in settlement processes.

Cost efficiency: Particularly in cross-border payments, stablecoins can help to reduce transaction costs. This benefit is especially significant where the sender and recipient operate within the same network, and no additional conversion or settlement steps are required. More direct and highly automated settlement processes can reduce processing and transaction costs.

Global availability: Stablecoins can be used worldwide and make it easier to access stable currencies, particularly in countries with high inflation or less developed financial infrastructure. They can therefore broaden access to digital financial services across national borders. They can also make it easier for people without a bank account to access digital payment options and other financial services.

Programmability and on-chain liquidity: Stablecoins can be integrated directly into digital processes and used as a means of payment and settlement in tokenised financial markets. Where assets and money are settled on the same infrastructure, transactions can be automated and executed atomically, i.e. simultaneously and indivisibly. This reduces reconciliation requirements, processing costs and counterparty risks. At the same time, value can be transferred within digital networks without the need for repeated conversion into traditional bank money.

This combination of speed, low costs, global availability, programmability and on-chain liquidity makes stablecoins attractive for international payments, treasury processes and tokenised capital market applications. Their growth is therefore driven not only by technological innovation but also by their potential to make existing financial market infrastructure more efficient.

2. Current use and potential development of stablecoins

The vast majority of stablecoin transactions are related to trading, internal transfers and other activities within the crypto ecosystem. In 2025, transactions totalling up to USD 35 trillion were settled through stablecoin networks. By contrast, actual payments for goods and services outside the crypto ecosystem are estimated at just USD 390 billion in an analysis by a leading international strategy consultancy. This represents around 0.02% of global payment volumes. The picture is therefore clear: stablecoins are not currently a significant means of payment and settlement in the real economy. Their primary function remains to provide liquidity and facilitate the settlement of transactions within the crypto ecosystem.

Nevertheless, there are already links to the traditional financial system. This is particularly evident from the reserve holdings of the largest stablecoin issuers: these now include around USD 170 billion held in short-term US government securities. According to the IMF, this is equivalent to around 2% of all outstanding US Treasury bills. As stablecoins become more widely used, these links could grow further. However, it remains uncertain whether, and to what extent, stablecoins will become established beyond the crypto ecosystem in the future. A key factor is likely to be the functions they come to perform. If they were to evolve from a pure means of payment into a widely used store of value, the market could grow significantly.

Other potential drivers include technological advances, the maturity of the infrastructure and increasing integration into existing financial market processes. Leading strategy consultancies expect the global supply of stablecoins, meaning the total nominal value of stablecoins issued and in circulation worldwide, to increase five to twelvefold by 2030. It is not currently possible to make a reliable assessment of whether such a development will actually materialise. If stablecoins were to grow significantly and become more widely used outside the crypto ecosystem, they would also become increasingly important for payments, liquidity management and banks' funding structures.

Against this background, the following chapter examines the potential impact of widespread stablecoin use on financial stability, monetary policy and market structures.

3. Risks associated with stablecoins

Based on the analytical assumption that stablecoins will be widely used in the future, this paper examines the potential impacts and risks, and the mechanisms through which they could affect financial stability, monetary policy and market structures. The analysis focuses on five areas:

1. Deposit outflows driven by stablecoins as a risk to the real economy
2. The impact of stablecoins on currencies and exchange rates
3. Increased risk of runs on stablecoin issuers
4. Erosion of the 'singleness of money' as a risk to trust
5. Fragmentation, consolidation and control over infrastructure

None of these risks can be assessed in general terms. Their impact depends, among other things, on the size of the market, the regulatory framework and issuers' business models. Simple chains of cause and effect do not therefore tell the whole story. Not every deposit outflow weakens bank lending. Not every stablecoin transaction undermines monetary policy. And not every run scenario becomes systemically relevant. What matters is the mechanisms through which stablecoins change the financial system. The following sections examine these transmission channels and their potential consequences for banks, financial markets, supervision and monetary policy in greater detail.

INFOBOX: General functionality

Deposits as a source of funding:

Customer deposits provide banks with a stable and generally low-cost source of funding for lending.

Alternative funding:

Money market or central bank funds can replace deposits, but are often more expensive.

Deposit outflows through stablecoins:

If bank deposits are shifted into stablecoins, banks have to replace the lost funding from other sources.

Impact on the real economy:
Higher funding costs can make loans more expensive, potentially dampening investment and consumption.

3.1 Deposit outflows driven by stablecoins as a risk to the real economy

One frequently cited risk is that the widespread use of stablecoins could affect banks' funding and, in turn, their lending. The key factors are what stablecoins are used for, who issues them and the source of the funds used to purchase them. With regard to stablecoin issuers, the following analysis distinguishes between electronic money institutions (EMIs), i.e. financial institutions that are authorised to issue electronic money (e-money) without being conventional banks, and credit institutions that issue stablecoins themselves.

Issuance by EMIs: from retail to wholesale deposits
Where EMIs issue stablecoins, customer deposits are initially transferred to the issuer's accounts. A portion of the funds received must be held as bank deposits to ensure that the stablecoins can be redeemed at any time. The deposits do not therefore automatically leave the banking system, but their structure changes. Large deposits from institutional investors take the place of numerous smaller retail deposits. This form of bundling can increase concentration risks and may require the banks holding these accounts to maintain additional liquidity buffers. As a result, funding may become more expensive and more dependent on individual depositors. Higher funding costs can, in turn, lead to higher lending rates, increasing the cost of finance for the real economy.

The portion of the funds received that is not held as bank deposits must be invested in other safe and highly liquid assets. These include, in particular, short-term government securities. These funds are no longer available to banks as deposits for funding purposes. This can reduce banks' deposit base and increase their funding costs, which may in turn affect lending terms for businesses and households. At the same time, investment of the reserves can have the opposite effect. Additional demand for government securities can lower their yields and improve funding conditions in money and capital markets. This can also benefit banks that obtain funding through these markets. More favourable funding conditions can give banks greater scope to lend thereby also supporting the financing of the real economy.

The effects on bank funding therefore work in opposite directions. On the one hand, higher liquidity requirements and the shift of deposits into other reserve assets can increase funding costs. On the other, additional demand for safe securities can improve access to market-based funding. Which effect predominates depends on how the reserves are invested and on banks' funding structures. The implications for lending, and therefore for the real economy, are not clear-cut.

Issuance through credit institutions: deposits become stablecoin liabilities

Credit institutions issuing stablecoins is not a purely theoretical possibility. The first European banking groups have already launched stablecoins on the market, while other institutions are pursuing joint initiatives. If a credit institution issues stablecoins itself and customers convert their deposits directly into stablecoins issued by that institution, there is initially no outflow of liquidity at the point of issuance. Instead, the composition of its liabilities changes: the sight deposit is replaced by a tokenised liability in the form of a stablecoin. Unlike issuance by EMIs, this does not result in an additional reserve deposit by an external issuer. Issuing stablecoins can therefore provide a credit institution with a means of actively managing its funding and retaining customer funds within the institution. If the stablecoins are purchased by customers of other banks, the issuing credit institution may receive inflows of funds, while the banks from which those funds originate lose deposits.

However, stablecoins issued by credit institutions do not have the same funding characteristics as traditional customer deposits. Particularly important are the redemption options, the composition and identifiability of token holders and the resulting liquidity requirements. Redemptions followed by transfers to other institutions can still result in liquidity outflows. When assessing issuance by credit institutions, it is therefore necessary to determine which requirements relating to safeguards and investments, as well as which prudential liquidity requirements, apply to the specific structure in question. Issuance by credit institutions is not assumed here to entail either a general requirement to invest the funds in short-term government securities or unrestricted availability of those funds for lending.

The quality of funding is key

Both cases illustrate the same point: when it comes to the availability of credit and, therefore, the impact on the real economy, it is not enough simply to consider whether funds remain within the banking system or with the individual institution. Equally important is how reliably those funds are available to banks as a source of funding and what liquidity buffers are required. Issuance by credit institutions can prevent an immediate outflow of funds to other issuers. Whether it can also provide a stable and low-cost source of funding, however, depends on the specific structure

and its regulatory treatment. If funding becomes more expensive or liquidity requirements increase, this can lead to less favourable lending terms for businesses and households. Conversely, stable and low-cost funding can support the provision of credit to the real economy.

INFOBOX: Rewards and MiCAR's ban on interest

MiCAR prohibits stablecoin issuers from paying interest on their tokens. The aim is to keep stablecoins focused on their function as a means of payment and settlement and to prevent them from competing directly with bank deposits. Under Article 50(2) MiCAR, the ban expressly also applies to crypto-asset service providers. Whether rewards, cashback, or similar incentives are covered by the prohibition depends on how they are structured in practice.

Funding:
Such rewards can, for example, be funded from fees, spreads, market-making activities, liquidity provision or lending activities. The source of the return is often not transparent to users.

Impact:
Attractive returns increase competition between stablecoins and bank deposits and may encourage deposit outflows from the banking system.

Question:
Can yield incentives increase the risk of deposit outflows?

Key message:
Yield incentives can strengthen the competitive position of stablecoins relative to deposits. Whether this results in material deposit outflows depends on market size and the specific design (see Section 3.1). Consistent application of the existing framework is therefore key.

3.2 The impact of stablecoins on currencies and exchange rates

The most widely used stablecoins today are pegged to the US dollar. Euro stablecoins have so far played a much smaller role. This raises the question of whether increasing use of US dollar stablecoins, particularly outside the United States, could further strengthen the dollar's international role and reduce the relative importance of the euro. Widespread use outside the United States would initially create additional demand for US dollars. If a European user purchases a USD stablecoin with euros, the dollar liquidity required for its issuance must be provided through a corresponding inflow of US dollars or a currency conversion. This could create additional upward pressure on the dollar. The strength of this effect, however, would depend on whether new capital flows actually occur or whether existing dollar holdings were simply shifted into stablecoins.

The key question then is what happens to the funds received. MiCAR generally requires issuers of e-money tokens to hold at least 30% of the funds received in separate accounts with credit institutions. The remaining funds must be invested in safe, highly liquid assets with minimal risk that are denominated in the same currency as the token. For a USD stablecoin, this generally means holding reserves in US dollars or USD-denominated assets. If the funds are held in short-term US government securities or other suitable dollar-denominated assets, a substantial proportion of the demand flows back into US financial markets and can provide further support for the dollar's international role. If, on the other hand, the funds are used to finance euro-denominated business, conversion into euros can increase the supply of dollars and weaken the initial upward pressure on the dollar. Currency hedging can, in turn, alter these effects.

However, the dominance of the US dollar should not be seen solely as a risk for Europe, as it also presents strategic opportunities. A USD stablecoin issued by a European Tier 1 bank and subject to European supervision could combine the dollar's global acceptance with European standards for supervision, governance and reserve management. This could be particularly attractive to international investors and companies that value transparent and reliable institutional frameworks. It would not, however, provide complete strategic independence from the US financial system, as the token would continue to depend on dollar liquidity and corresponding reserve assets. Nevertheless, a USD stablecoin with global demand could give European banks access to an additional source of dollar funding and reduce their dependence on international wholesale markets and FX swaps, whose availability and cost can deteriorate in times of market stress. Whether this would actually make funding cheaper and more stable would depend on the cost of maintaining reserves, redemption risks and the stability of demand. It is also worth bearing in mind that, under MiCAR, issuers are not permitted to pay interest solely for holding e-money tokens, which limits how the business model can be structured.

The key question, therefore, is not simply whether the use of US dollar stablecoins outside the United States strengthens the dollar and weakens the euro in relative terms. Another key consideration is whether European financial institutions can

participate in the emerging digital dollar infrastructure and what impact this could have on European payments. While euro stablecoins and wholesale CBDC, or tokenised central bank money for interbank and financial market use, could help strengthen euro-based payment and settlement infrastructures, the regulated issuance of USD stablecoins by major European banks could provide an additional strategic option.

At the same time, the increasing use of foreign-currency stablecoins in the euro area entails risks. Payments and settlements in US dollars may involve exchange-rate, conversion and hedging costs, while greater use of USD stablecoins could reduce demand for euro-based payment instruments and thereby weaken the euro's international role in relative terms. Any strategic assessment of USD stablecoins must therefore take into account both the potential benefits for European financial institutions and the impact on the cost, efficiency and currency composition of European payments.

3.3 Increased risk of runs on stablecoin issuers

Stablecoins promise users that they can be redeemed at par at any time. The credibility of this promise, however, depends on the quality and liquidity of the reserves. If doubts arise about the reserves or the issuer's ability to meet its redemption obligations, large numbers of users may seek to redeem their stablecoins at the same time. Such crises of confidence can unfold more rapidly than traditional bank runs. Stablecoins can be traded around the clock, are available globally and can be transferred within minutes. Social media, digital platforms and automated trading strategies can further accelerate outflows. As agentic commerce becomes more widespread, stablecoin transactions could in future also be initiated automatically by AI-based agents. If multiple agents respond to the same market signals or thresholds, they could trigger transactions simultaneously and amplify outflows. The speed of a run would then no longer be limited solely by how quickly human users can react. The ECB points out that digital runs can take place within a matter of hours. Moreover, the risk is not limited to the issuer's liquidity needs. If reserves have to be sold on a large scale, this can put downward pressure on their prices and lead to further market disruption. An initial liquidity shock could then spread to other segments of the financial market.

Run on a non-bank stablecoin issuer

Non-bank stablecoin issuers must hold sufficiently liquid reserves to meet redemptions at any time. MiCAR sets out extensive requirements in this regard. Their resilience, however, depends on the quality of the reserves and on liquidity management. If the reserves do not consist entirely of liquid assets that are immediately available, assets may have to be sold in times of stress. The risk therefore lies not only in the run itself, but also in the potential consequences of such reserve sales.

INFOBOX: The USDC crisis in March 2023

Trigger:

Circle held USD 3.3 billion, or around 8% of USDC reserves, with Silicon Valley Bank.

Market reaction:

Doubts about the availability of these funds temporarily pushed USDC down to around 88 US cents.

Stabilisation:

The US authorities' commitment to make all SVB deposits available restored confidence.

Key message:

This case shows that a run on a stablecoin issuer can also be triggered by problems at a bank where the issuer holds its reserves. Bank risks can therefore be transmitted directly through reserve holdings to the redeemability and stability of a stablecoin.

Stablecoins and the Treasury market

Of particular relevance is the growing interconnectedness between stablecoins and the US Treasury market. Large stablecoin issuers hold substantial portions of their reserves in short-term Treasury bills. As a result, shocks can be transmitted in both directions. A loss of confidence in stablecoins can trigger large-scale redemptions. Issuers may then have to sell Treasury holdings to meet these redemptions. If these sales take place in a market that is already under strain, liquidity and price formation may come under pressure. This, in turn, can weaken confidence in stablecoin reserves more broadly. Conversely, a shock in the Treasury market, for example as a result of a debt-ceiling crisis or concerns about the liquidity of certain US government securities, could call into question the value or liquidity of the reserves and trigger a run on stablecoins. Any resulting reserve sales could then further intensify stress in the Treasury market. The scale of this transmission channel is still limited at present. According to US Treasury estimates, stablecoin issuers held around USD 120 billion in T-bills in 2025, compared with a total T-bill market of around USD 6.4 trillion. This represents just under 2% of the outstanding market. However, as the stablecoin market continues to grow, this interconnectedness could become increasingly significant. From a financial stability perspective, the key questions are what proportion of these holdings would need to be liquidated at short notice in a stress scenario and how much capacity the Treasury market would have to absorb these sales.

Credit institutions as stablecoin issuers

A different risk profile arises when credit institutions themselves issue stablecoins. Credit institutions are already subject to extensive liquidity, capital and risk requirements. Instruments such as the LCR (Liquidity Coverage Ratio), NSFR (Net Stable Funding Ratio) and stress tests enhance their ability to absorb short-term outflows. However, this does not eliminate the risk of a run. Stablecoins can accelerate outflows because they can be transferred globally and in near real time. As a result, a loss of confidence can translate into actual liquidity outflows more rapidly than is the case with traditional deposits.

Cross-border run risks

Additional risks arise where stablecoins are issued across multiple jurisdictions and are fully fungible. This is known as the multi-issuing problem and can result in redemptions becoming concentrated among particular issuers or in particular jurisdictions in times of stress. Investors may seek to redeem their tokens where they expect the strongest regulatory protection or the greatest liquidity of reserves. This is particularly relevant for Europe, as MiCAR requires a portion of the reserves to be held as bank deposits. A run on a stablecoin could therefore affect not only the issuer but also lead to a rapid withdrawal of deposits from banks. The key financial stability risk is therefore not confined to the individual issuer. Shocks can spread through reserves, government bond markets, banks and across different jurisdictions. As the stablecoin market becomes larger and more integrated, this transmission channel could become increasingly significant. At the same time, multi-issuance is currently the key structure through which globally liquid USD stablecoins can be offered in the EU in compliance with MiCAR. Restrictions could shift their use towards offerings outside the European regulatory framework. The focus should therefore be on appropriate safeguards, particularly regarding reserve requirements and liquidity arrangements between issuers.

3.4 Erosion of the ‘singleness of money’ as a risk to trust

Stablecoins depend on trust that they can be redeemed at par at any time. Doubts about the reserves, the issuer’s creditworthiness or the ability to redeem the stablecoin can quickly undermine that trust. Market participants would then be unlikely to continue holding an affected stablecoin at a discount. Instead, they would redeem it or exchange it for a stablecoin perceived as safer. A depeg could therefore trigger further redemptions and, in an extreme case, develop into a run. However, the risk to the ‘singleness of money’ arises at an earlier stage: when market participants no longer readily accept different stablecoins referencing the same currency as equivalent.

This brings a fundamental principle of modern monetary systems into focus: the ‘singleness of money’. It describes the expectation that a euro is always a euro, regardless of the bank at which it is held or the payment system through which it flows. This principle is based on the two-tier monetary system and on institutional mechanisms that ensure the equivalence of commercial bank money.[1] As a result, market participants do not need to assess in their day-to-day activities whether a euro held at Bank A is safer than a euro held at Bank B. The existing European regulatory framework provides a common basis for the safe integration of stablecoins into the financial system. Banks are already subject to prudential capital and liquidity requirements, and can hold central bank reserves subject to the applicable access conditions. Where these reserves are used to back stablecoins issued by a credit institution, they can support the liquidity of the reserves and confidence in the stablecoins’ redeemability. However, this implies neither a government guarantee for the stablecoins nor their automatic equivalence in payments. What remains decisive is how reserve management, redemption and settlement are structured in practice.

For stablecoins, acceptance at par is therefore not automatically guaranteed, even when they are issued by banks. Before acquiring or accepting a stablecoin, users would already need to assess whether they trust the issuer concerned. This is where the key information asymmetry arises. The risk therefore does not begin only with a potential depeg or a subsequent run. It arises as soon as market participants have to distinguish between different stablecoins and assess their value and reliability individually. By contrast, the current financial system benefits precisely because money is relatively insensitive to information. Users accept money without having to assess the issuer’s creditworthiness or the quality of its backing for every transaction. Stablecoins could partly shift this assessment back to market participants. Widespread use of stablecoins could therefore lead to shifts in liquidity between issuers, additional conversion steps and, in extreme cases, runs. A discount can be a sign of market discipline while at the same time triggering redemptions and shifts in liquidity. The risk to stability therefore lies not only in a potential run, but arises earlier, when different forms of money become more sensitive to information and are no longer readily accepted as equivalent.

A tokenised financial system therefore continues to depend on a generally accepted anchor of value and reliable rules governing the convertibility of different forms of

[1] These include, in particular, the convertibility of bank deposits into central bank money, settlement between banks in central bank money, prudential requirements, liquidity requirements and deposit guarantee schemes.

money. This requires reliable convertibility at par. Such convertibility is a necessary, but not sufficient, condition for the 'singleness of money'. Building on the existing European regulatory framework, trust in the equivalence of different forms of digital money must be underpinned by appropriate institutional arrangements. Any remaining questions of interpretation should be resolved through constructive dialogue between supervisory authorities and market participants. The focus should be on ensuring consistent application of the European requirements. It is also essential that market participants do not have to continually assess the value and reliability of different forms of money and their issuers every time they make a payment. This common foundation allows the benefits of tokenisation to be realised while preserving the 'singleness of money'.

3.5 Fragmentation, consolidation and control over infrastructure

The benefits of tokenised financial markets can only be fully realised if liquidity can flow freely between market participants, platforms and assets. Today's infrastructure is highly fragmented. Stablecoins circulate across different platforms and networks, between which liquidity cannot always be transferred seamlessly. This creates additional conversion and bridging steps, increasing costs, complexity and operational risks. However, under the assumption of widespread stablecoin use made in this paper, today's level of fragmentation is unlikely to remain unchanged. As adoption increases, strong network effects could encourage consolidation. As a result, liquidity, users and applications could become increasingly concentrated among a small number of large providers and infrastructures. This does not necessarily mean that there will ultimately be only one stablecoin per currency. In other markets, too, a small number of large providers successfully coexist.

However, consolidation also gives rise to new risks. Those who control the underlying infrastructure often also have considerable influence over technical standards, interfaces and market rules. Given the current market structure, there is a risk that significant parts of this infrastructure could be controlled by a small number of non-European providers. For Europe, the question is therefore not only what role individual stablecoins will play, but also who controls the underlying market infrastructure. The more market participants rely on a small number of dominant platforms, the greater their dependence on those platforms' business models, rules and technical decisions. Financial stability is therefore also a question of technological sovereignty. Those who control the infrastructure not only influence market standards but also shape the long-term development of the ecosystem as a whole. For Europe, this creates the strategic task of limiting dependence on critical financial market infrastructure controlled from outside Europe.

A common European monetary ecosystem could reduce strategic dependencies by connecting different forms of money through interoperable infrastructure while strengthening competitive European offerings. This would avoid over-reliance on stablecoins and give European solutions, including euro stablecoins, greater scope to scale.

4. What are the implications for Europe?

Stablecoins can generate significant efficiency gains, but they can also give rise to new risks to financial stability, market structures and monetary policy sovereignty. The key question will therefore be how Europe regulates them and integrates them into the monetary system. Of particular importance is ensuring that stablecoins are embedded in a market architecture that enables innovation, strengthens the role of the euro and preserves the stability of the existing monetary system. This results in two key areas where action is required.

First: consistent regulation and mitigation of systemic risks
Stablecoins used for payment purposes should be subject to stringent requirements regarding reserve quality, transparency, redemption rights and supervision. The aim must be to contain systemic risks at an early stage and prevent stablecoins from taking on bank-like functions outside an appropriate regulatory framework. The current MiCAR requirements should be applied consistently and regularly reviewed and further developed as the market evolves. Above all, stablecoins in Europe should be designed as a means of payment and settlement rather than as interest-bearing investment products. The MiCAR ban on interest paid by issuers and crypto-asset service providers should therefore be applied consistently. In the case of rewards and similar remuneration models, their specific structure should be assessed to determine whether they fall within the scope of the existing ban or whether further regulatory clarification is needed. A consistent regulatory framework creates a level playing field for different market participants.

Regulation should also take into account the potential for stablecoins to change the structure of bank deposits. The impact differs depending on whether stablecoins are issued by EMIs or by credit institutions themselves. In the case of EMIs, a shift from widely distributed retail deposits to larger wholesale deposits can increase concentration risks, give rise to additional liquidity requirements and make funding more dependent on market conditions. Where stablecoins are issued by credit institutions, the direct conversion of their own customer deposits can initially take place without any liquidity outflow. Here too, however, the key factors are how the quality of funding and liquidity requirements change. As stablecoins become more significant in the market, these developments should be monitored and, where necessary, taken into account in the regulatory framework. The run risks associated with stablecoins also warrant particular attention. Regulatory requirements should ensure not only the value of the reserves but also their ability to be liquidated effectively in times of stress. This is particularly important because stablecoin reserves are becoming increasingly interconnected with banks and money and capital markets. Regulation should therefore systematically take into account potential feedback loops and transmission effects between the stablecoin market, banks and financial markets.

Second: a vision for a European monetary infrastructure for the tokenised economy

Europe's response to the potential scaling of stablecoins cannot be based on regulatory requirements alone. Europe also needs a clear vision for tokenised money. The different forms of digital money should be integrated into a common, interoperable market infrastructure in line with their respective strengths and use cases. The key elements are:

- tokenised deposits, combining the benefits of programmable payments with the stability of the existing banking system;
- wholesale CBDC, or tokenised central bank money for interbank and financial market use, enabling the secure and efficient settlement of tokenised transactions in central bank money;
- stablecoins, which can be used where they offer specific economic benefits, particularly in cross-border use cases or in markets with limited access to stable currencies and financial infrastructure.

European banks can play an active role in shaping this development by offering competitive solutions of their own and drawing on their expertise in treasury and risk management. Such solutions should support the interoperability of stablecoins, tokenised deposits and central bank money. European banks' participation in global stablecoin infrastructures could also include the issuance of USD stablecoins. The associated business opportunities should be distinguished from the objective of strengthening euro-denominated forms of money and the international role of the euro. Potential trade-offs depend in particular on whether existing euro usage is displaced or whether already existing US dollar payment flows are served by European providers. The existence of different forms of money is not necessarily a problem. What matters is that they are interoperable, interact seamlessly and are based on a common market architecture. Technical interoperability alone is not enough. It must be accompanied by reliable rules for redemption and settlement, as well as an institutional framework that strengthens trust in the equivalence of money in payments.

The Eurosystem is already working on the tokenisation of central bank money and is pursuing a two-track approach with Pontes and Appia. For Appia, the option of making tokenised central bank money available on market DLT platforms while keeping it under the full control of the Eurosystem should be explored. This would make central bank money available as a common anchor of value wherever payments, securities settlement and liquidity management take place in the future. An infrastructure of this kind could pool liquidity across platforms and provide the foundation for an efficient digital monetary ecosystem. Common standards, reliable access conditions and the ability to switch between platforms should help limit new dependencies on individual providers. At the same time, combined with the institutional conditions outlined above, it could strengthen the 'singleness of money', support the international role of the euro and limit dependence on dominant non-European infrastructure providers. This could be a particular competitive advantage for European solutions. The more liquidity, trust and interoperability are brought together within such an architecture, the more attractive European stablecoins, tokenised deposits and other forms of digital money will become. Europe can thus create the conditions needed to safeguard the effectiveness and strategic independence of its monetary policy over the long term, including in a tokenised economy.

Strategic conclusions

Widespread use of stablecoins does not necessarily create systemic risks. Their impact depends on how they are used, the type of issuer, their regulatory treatment and how they are embedded in the financial system. Banks can play an active role in shaping this development by offering their own solutions. Europe's key challenge is to create a common market architecture for tokenised money. Tokenised deposits combine programmable payments with the stability of the existing banking system, while wholesale CBDC, or tokenised central bank money, enables settlement in central bank money. Stablecoins can complement these forms of money where they offer specific economic benefits, particularly in cross-border use cases. Different forms of digital money should work together seamlessly and interoperably, while preserving stability, the ability to implement monetary policy effectively and technological sovereignty.

Without a common European approach, existing risks could be amplified and new strategic dependencies on a small number of dominant providers and infrastructures could emerge. In the tokenised economy, control over market infrastructure and standards will increasingly become a strategic resource. Competitiveness, innovation and autonomy will therefore depend in future not only on monetary sovereignty but also on control over infrastructure. Ultimately, this is not just about stablecoins. It is about the future design of the monetary system, the role of the euro and who controls the infrastructure of the tokenised financial world.

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