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THE CONSEQUENCE OF STABLECOINS DEVELOPMENT ON TRUST IN THE MONETARY SYSTEM

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Abstract

In recent years, stablecoins have become a salient feature of financial markets and regulatory debates, reinforced by explicit policy choices in the United States and by their inclusion in the European MiCAR framework. While the growing literature on stablecoins has largely focused on financial stability and systemic risk, this paper reflects on their broader international political economy implications. Building on the post-Bretton Woods monetary order, the paper conceptualizes fiat money as resting on institutional trust embedded in a two-tier fractional banking system. It argues that the rise of stablecoins and its potential substitution to traditional money if becoming systemic weakens this trust in at least three ways: by transforming the two-tier system of money creation into a three-tier structure, by reducing the efficiency of central bank monetary policy transmission, and by fragmenting the functions of money contributing to a renewed form of Gresham's Law. The paper concludes that stablecoins should be treated as non-money assets or, alternatively, be subject to prudential regulation equivalent to commercial banking standards.

Introduction

In recent months, the rise of stablecoins has been covered widely in financial news. A decisive turning point has been the explicit U.S. policy of "*promoting and protecting the sovereignty of the United States dollar, including through actions to promote the development and growth of lawful and legitimate dollar-backed stablecoins worldwide*" (White House, 2025). Through presidential executive orders and the Guiding and Establishing National Innovation for U.S. Stablecoins (GENIUS) Act of July 2025, a legal framework has been created for the issuance of stablecoins in the U.S. In Europe, regulation of stablecoins falls under the wider Markets in Crypto-Assets Regulation framework (MiCAR) that entered into force well before, in June 2023.

The scale of stablecoin adoption has grown dramatically. As of late 2025, the stablecoin market represents over $270 billion in value, with the two largest issuers, Tether (USDT) and Circle (USDC), dominating the landscape (International Monetary Fund, 2025). More remarkably, annual transaction volumes for these two stablecoins alone exceeded $23 trillion in 2024, rivaling traditional payment networks (Goldman Sachs Research, 2025). Tether has become the seventh-largest holder of U.S. Treasury securities globally, surpassing Saudi Arabia's holdings, while Circle generated approximately $1.7 billion in revenue from reserve management in 2024 (Yadav and Malone, 2025).

Yet this growth has been accompanied by systematic instability. Moody's Analytics (2023) recorded 1,914 stablecoin depegging events through mid-2023, with 609 involving major stablecoins, averaging more than one significant depeg per day. During the March 2023 Silicon Valley Bank crisis, USDC fell to $0.8789 (12.11% below par) despite alleged full reserve backing, while the Ethereum-pegged DAI dropped to $0.85 (15% below par) (S&P Global, 2023). These empirical facts demonstrate that stablecoins experience quality differentiation under stress (although prior to serious regulation and oversight), creating a modern manifestation of Gresham's Law where "bad money drives out good money."

The body of literature on stablecoins is expanding rapidly and various original in-depth analyses and opinions have been released recently. Comparative analyses of regulatory frameworks have emerged as a central focus. Odinet and Tosato (2025) conduct the first comprehensive private law comparison of the European Union's MiCAR and the U.S. GENIUS Act, identifying four critical deficiencies in stablecoin governance: asymmetrical terms of service, ambiguous customer rights, tenuous redemption systems, and perilous standing in issuer bankruptcy. Their analysis reveals markedly different regulatory approaches, with MiCAR emphasizing comprehensive conduct obligations and strict liability regimes, while the GENIUS Act focuses on operational requirements and unprecedented bankruptcy protections. (Martino et al., 2025) frame this divergence as "cryptomercantilism versus monetary sovereignty," highlighting how MiCAR seeks to ring-fence the EU's

financial and monetary powers while the GENIUS Act aims to attract foreign issuers and promote dollar-denominated stablecoin expansion globally.

Others discuss the privatization of seigniorage through private tech actors and the geopolitical implications of stablecoin dominance. Rey (2025) argues that wide adoption of U.S. dollar stablecoins represents "the privatization of seigniorage by global actors," noting that major stablecoin issuers collectively hold more U.S. Treasuries than Saudi Arabia, which could simultaneously reinforce U.S. financial dominance while eroding fiscal revenues in adopting countries. Mandeng (2025), has extensively examined stablecoins' viability in open-loop payment systems and their potential to fragment traditional banking, emphasizing that their scalability depends critically on generalised clearing mechanisms that allow inter-bank transactions. His earlier work draws parallels to Germany's nineteenth-century private banks of issue, suggesting historical precedents for the monetary instability that unregulated private money creation can generate (Mandeng, 2018).

Central to most investigations is the impact of stablecoins on financial stability and whether they are a new source of systemic risk. The Bank for International Settlements (2025) documents that stablecoin issuers purchased approximately $40 billion in U.S. Treasury bills in 2024 alone, raising concerns about procyclical liquidation during stress events. Bertsch (2023) models how the combination of instant redemption features and imperfect reserve asset liquidity creates vulnerability to self-fulfilling runs.

In this paper, we offer a conceptual political economy analysis of the implications of stablecoins for trust in the international monetary system (IMS). The analysis is anchored in institutional monetary theory, historical comparison, and emerging empirical evidence where available. Positioned as a qualitative and conceptual discussion, our contribution to the literature lies in its explicit examination of how this form of quasi-money affects the trust mechanisms that underpin the value of fiat currencies. For doing so, the starting point of the paper is that the end of the Bretton Woods Agreements have enshrined a full fiat monetary system where ultimate value of currencies rests upon trust in the sovereigns ability to collect taxes in a prospering economy (see Appendix). This trust in final redemption by the sovereign is the key question that regulators face when dealing with stablecoins. This piece dissects the consequences on the monetary system of a situation where stablecoins would have become a systemic feature of international finance. This means that their issued volumes would be substantially large and their adoption by retail users as quasi-money substitutes would be mainstream. With this sort of "what if" analysis, we aim to help financial actors and regulators to understand both the similarities and differences between stablecoins, commercial bank money, and central bank money. The degree of (dis)similarity between these forms of money within a fiat currency system should inform whether and to what extent stablecoins warrant an equivalent redemption by central bank than central bank or commercial money.

The paper proceeds as follows. In the first section we reflect on the evolving nature of

stablecoins as an asset class and their relationship to the monetary system. In the second section we argue that stablecoins as monetary substitutes weaken the trust underpinning fiat money because they (a) transform the two-tier fractional banking system into a three-tier system, (b) increase the cost of efficient monetary policy conduct and (c) fraction the functions of money and so create a new version of the Gresham Law where traditional currencies may be sought after as strong stores of values and digital tokenized assets may serve as liquid means of payment. In the final section we recommend that stablecoins be treated as non-money assets, similarly to money-market funds or e-monies. As a second best, if regulators are to consider them as tokens with legal tender, we argue in favor of stringent regulation of stablecoin issuers effectively elevating the prudential requirements to the same level as commercial banking standards.

1 The nature of stablecoins still to be defined

With the advent of digital technologies, most of the accounts held by customers with their commercial banks have become digital code lines. A bigger game-changer however has been the mainstreaming of Distributed Ledger Technologies (DLT) in finance in the 2010s. They have enabled the emergence of crypto-assets: digital assets secured by cryptography and recorded on distributed ledgers. These DLTs make it possible to transfer digital assets from owner to owner without traditional banking intermediaries, a phenomenon sometimes called "disintermediation" (Werbach, 2018). However, as we shall argue, this disintermediation narrative obscures a more complex reality: rather than eliminating intermediaries, DLT systems often substitute one form of intermediation (traditional banking) for another (platform provision and crypto-asset issuance).

Among these crypto-assets, some compete to be qualified as "currencies". Hence, debates arise about which cryptocurrencies are to be included within the boundaries of the currency realm: Bitcoins? E-monies? Central bank digital currencies (CBDC)? Stablecoins? Bitcoins are rather speculative assets that do not rest on any official sovereign currency. CBDCs are official sovereign currencies stored and transferred on digital systems. E-monies are not currencies as such but act as means of payment and may be compared to digital wallets. In practice, they are an alternative form of money to cash or coins. Chiu and Monnet (2024) provide a systematic framework for distinguishing these various forms of digital money based on their issuance mechanisms, backing structures, and relationship to public monetary authorities.

Whether stablecoins will be incorporated as a new form of money or whether they will remain a separate asset-class is not clear yet. The semantic confusion already sits in the name that refers to "coins". As Martino et al. (2025) describe at length, the way official regulation treats them will prove crucial. In this, regulators must evaluate how singleness and stability of the currency is best ensured. But market actor behavior

creates the conditions of enmeshments of stablecoins with the monetary system as well. Their behavior will also decisively influence the way authorities need to treat stablecoins. Evidence from the current use of stablecoin shows that most of the stablecoin transaction activity right now is as a means of payment for trading, internal shuffling of funds or automated blockchain activity (McKinsey & Company, 2026).

At the moment of writing, we sit at a crossroads. The exact nature of stablecoins is in constant evolution as new actors start to issue tokens (bank and non-bank entities) and as legislative frameworks in various jurisdictions shape different risk profiles by embedding conditions for issuance in different ways. As a result, the word stablecoins for now refers to a collection of digital assets with various legal status and financial risk profile. Ultimately, it is the degree of *de iure* and *de facto* redemption guaranteed by central banks as lender of last resort that will determine whether stablecoins are similar to other forms of money, and whether they become legal tender (official means to settle transactions and ultimately pay taxes). Garratt and Shin (2023) distinguish sharply between stablecoins and tokenized deposits precisely on this dimension: tokenized deposits are claims on banks and thus ultimately on central bank reserves, while stablecoins are claims on private issuers whose own claims on the banking system may be uncertain or incomplete.

Said differently, it is the regulators' and financial markets' treatment of stablecoins that will determine whether these tokens are mocking or replicating money. The GENIUS Act attempts to resolve this ambiguity by requiring stablecoins to be issued by regulated entities (banks, subsidiaries of banks, or federally-licensed non-bank institutions) and backed 1:1 by high-quality liquid assets, while explicitly excluding them from securities classification (U.S. Congress, 2025). MiCAR takes a more restrictive approach, limiting issuance to licensed credit institutions or e-money institutions and granting the ECB powers to restrict stablecoin circulation when monetary stability is undermined (Regulation (EU) 2023/1114, 2023). This regulatory divergence reflects fundamentally different views about the relationship between stablecoins and traditional money.

2 Political economy consequences of the stablecoin rise

This section discusses three major impacts of stablecoins on the institutional and relational arrangements of the monetary systems. For each of these effects we show how the trust structures underpinning the value of fiat money are challenged.

2.1 Towards a three-tier system of money creation

The first important principle of the monetary system that is challenged by stablecoins is the two-tier structure of money creation. So far, fiat money creation has rested upon the collaboration of the public sector through central bank money and the private sector

through commercial bank money. The balance of power between these actors is roughly determined by the mandate of central banks, banking reserve prudential regulations and market conditions influencing central bank interest rates on deposits (see a more detailed discussion of the monetary system arrangements since Bretton Woods in Appendix 1).

Fifty years ago, we moved a long way from a physical backing of a currency (e.g. gold standard) to a relational backing of currency (e.g. fiat money). In a two-tier system one trusts the capacity of a state actor to guarantee the value of a currency through regalian functions, especially tax collection. Henceforth, last century has witnessed this shift from trust in a physical underlying asset towards trust in a relationship with the state embodying the wider group of citizens. In the former case, the underlying physical asset promised upon redemption guarantees value over time. In the latter, one holds confidence in the future ability of the citizenry to create wealth and hand over some of it to the state which as a lender of last resort, guarantees a stable redemption of its liability.

With the potential inclusion of stablecoins in the realm of legal tender money, money creation becomes a "three-tier" system (in a recent lecture, Cœuré (2026) describes a "three-level" system). Not only is money supply then composed of central bank money and commercial bank money, but also of stablecoin issuer's tokens. Beyond sovereign authorities and private banking actors, private technology actors become central to the chain of money creation. This major political economy change from stablecoins development is an unnoticed shift in the underlying object on which trust in a currency is based. Table 1 summarizes the evolution of trust bases across monetary regimes.

Table 1: Evolution of Trust Bases in Monetary Systems

Era	**Backing**	**Trust Object**	**Redemption**
Pre-1971	Physical (gold)	Commodity value	Convertibility
1971-2020s	Relational (state)	Fiscal capacity	Tax revenue
2020s+ (with stablecoins)	Hybrid	Tech platforms	Uncertain
		solvency/liquidity	

Gorton and Zhang (2023) draw an illuminating parallel of current situation with nineteenth-century "wildcat banking," when American state-chartered banks issued their own currencies backed by varying quality of assets. The resulting proliferation of bank notes trading at different discounts to par created exactly the kind of monetary fragmentation that undermined the singleness of money. That era ended only with the National Banking Acts of 1863-1864, which established a uniform national currency backed by federal bonds. The emergence of stablecoins threatens a return to this fragmented monetary landscape, albeit with digital token issuance replacing physical bank notes issuance.

2.1.1 The digital layer in contemporary banking

In fact, the digitalization of finance has already inserted an additional object in the layers of trust of fiat currency systems. Over the last decades, there has been a gradual shift in use of central bank notes and coins forms of money toward digital accounts at commercial banks. Most of the money stored and used in transactions nowadays is commercial bank money accessed to and transferred through digital systems. In advanced economies, cash represents less than 10% of narrow money supply, with the remainder existing as digital bank deposits (Aldasoro et al., 2025).

A layer of digital systems has been added on top of the banking intermediate between economic actors and the sovereign guaranteeing the value upon which one holds a claim. In a simplified way, when opening my banking app, I trust that the amount displayed digitally in front of my eyes is effectively redeemable by my commercial bank in the form of notes or coins, which implies for my commercial bank to have sufficient deposits to claim these notes or coins to the central bank. But I also trust that the digital systems my bank relies on are reliable from a technical point of view. In this system, the digital banking system is an invisible functional layer in the "chain of trust" used by the banking intermediary.

2.1.2 From disintermediation to re-intermediation

In the two-tier system, commercial banks hold reserves at the central bank and provide deposits to economic actors. The three-tier system introduces stablecoin issuers as an additional layer, holding reserve assets at commercial banks and issuing tokens to users. In doing so, trust is given (often unconsciously) to a technical system and their parent companies, not as a functional layer, but as an intermediary itself.

In effect, the promise of disintermediation through decentralized finance becomes the addition of an intermediary (the stablecoin issuer). And if the stablecoin issuer is regulated as a banking entity, or if the issuer is a bank itself, we witness a substitution of intermediaries instead of a disintermediation.

The new chain of trust incorporates tech actors beyond traditional commercial banks and central banks for money creation. Therefore, the chain of trust in a stablecoin world is composed of additional steps, substantially less transparent and regulated than in a traditional two-tier money system. Arguably also, this three-tier structure creates a more uncertain and indirect redemption path to the monetary base. Figure 1 illustrates the transformation from two-tier to three-tier trust structures.

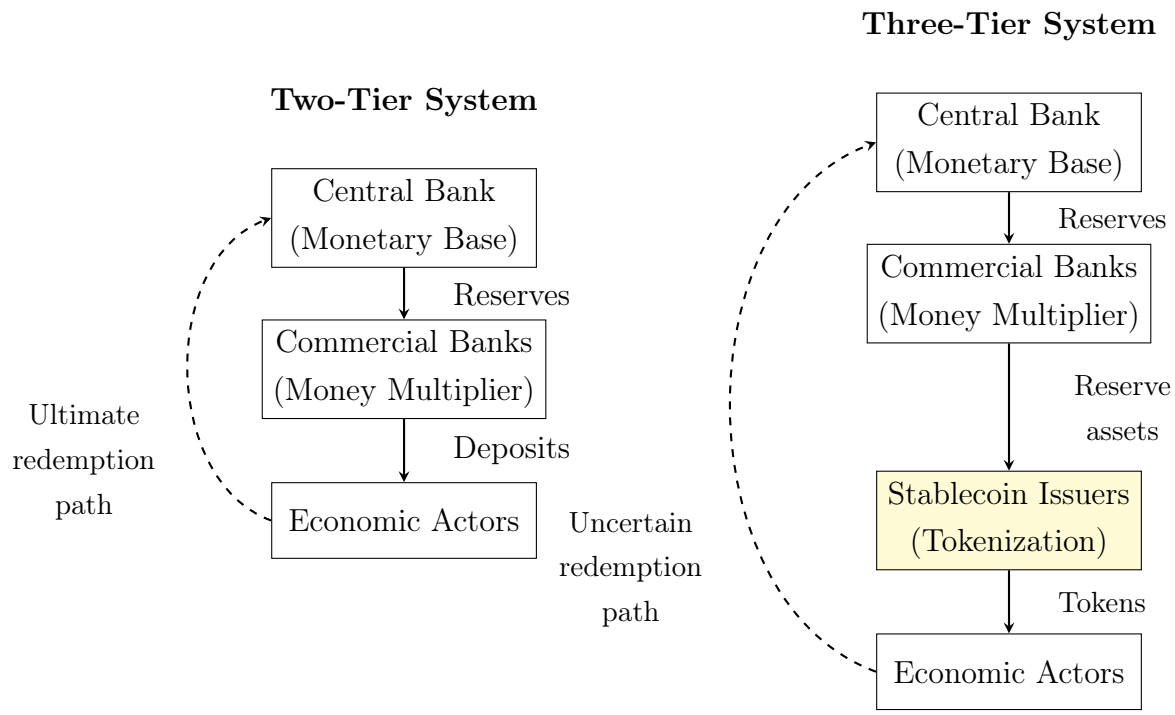

Figure 1: Comparison of traditional two-tier banking system versus emerging three-tier system with stablecoins.

2.1.3 Fragmentation of the trust chain

One may then ask to what extent this evolution of the money creation architecture may increase or decrease trust levels in the legal tender money. The answer is not straightforward. On one hand, blockchain-based systems offer transparency through immutable ledgers and cryptographic verification. On the other hand, the opacity of stablecoin issuers' reserve management, governance structures, and ultimate redemption mechanisms introduces new sources of uncertainty. In the words of BIS chief Hernández de Cos (2026): "Some of these arrangements replicate money-like or bank-like activities without the safeguards that have long underpinned confidence in the financial system, creating potential for liquidity runs, cross-border contagion and regulatory arbitrage. Moreover, increased competition from tech-savvy entrants may induce banks to engage in greater risk-taking."

Bertsch (2023) models this trade-off formally, showing that while stablecoins may reduce transaction costs in normal times, they increase systemic fragility during stress periods when redemption chains become critical. The 2023 de-pegging of USDC following the collapse of Silicon Valley Bank, one of Circle's banking partners—provides empirical evidence of this vulnerability. USDC briefly traded as low as $0.88, demonstrating that the chain of trust extending through commercial banks to stablecoin issuers is only as strong as its weakest link. Bolt et al. (2024) provide a sobering historical parallel: the Bank of Amsterdam, once the paragon of sound money backed by metallic reserves,

collapsed when it began lending against its deposits in a sustained and non-transparent way.

Hence, do cutting the banking intermediaries and supplanting them with loosely regulated tech platforms foster trust? The evidence suggests the opposite: rather than strengthening trust through decentralization, the three-tier system fragments it across additional layers of counterparty risk, technological dependency, and regulatory uncertainty.

2.2 Reduced efficiency of Central Bank's monetary policy tools

A second important political economy consequence of the development of stablecoins is the effects on monetary transmission. Indeed, if stablecoins become a systemic feature of the financial system and close substitutes to money, they may deeply affect the money supply and the way central bank monetary policies transmit to the real economy.

2.2.1 Adjustment of the money supply through liquidity sterilization

The money supply is the sum of monetary aggregates known as M0, M1, M2, and M3. Narrow money comprises the monetary base M0 and regular commercial bank deposits. Broader measures of money supply M2 and M3 comprise M1 as well as substitutes for "traditional" money such as large time deposits and money market funds. In this paper, conducting a "what if" experiment of the impacts of stablecoins when included in the realm of money, stablecoins are considered part of narrow money.

Figure 2 shows a balance sheet analysis of the various actors affected by the issuance of stablecoins: central banks, commercial banks, token issuers and the general public.

We see that a systemic role for stablecoins would re-route part of the liquidity from bank-intermediated credit money toward collateral-backed transactional money. This is because token issuers resemble "narrow banks" that operate with no credit creation. The overall systemic result is a displacement of general public retail deposits at commercial banks and a reduced bank balance-sheet capacity. This in turn results in reduced credit creation. The liquidity of the general public is instead increasing the liabilities of the token issuers that then directly invest in short term safe assets or in wholesale bank deposits. In the case of the former, the bank disintermediation is direct while in the case of the latter, the disintermediation is more indirect. The change in bank deposit is then not so much one of volumes, rather of nature. Indeed, wholesale deposits are predominantly parked in short term assets (sovereign bonds like T-bills, repo, cash equivalents). This has a direct consequence on bank's profitability as wholesale deposits are usually less profitable than retail deposits. But more importantly, this may reduce the availability of credit for the real economy. The critical role of banks in the financial system is maturity transformation realocating short term deposits to long term credit according to the needs

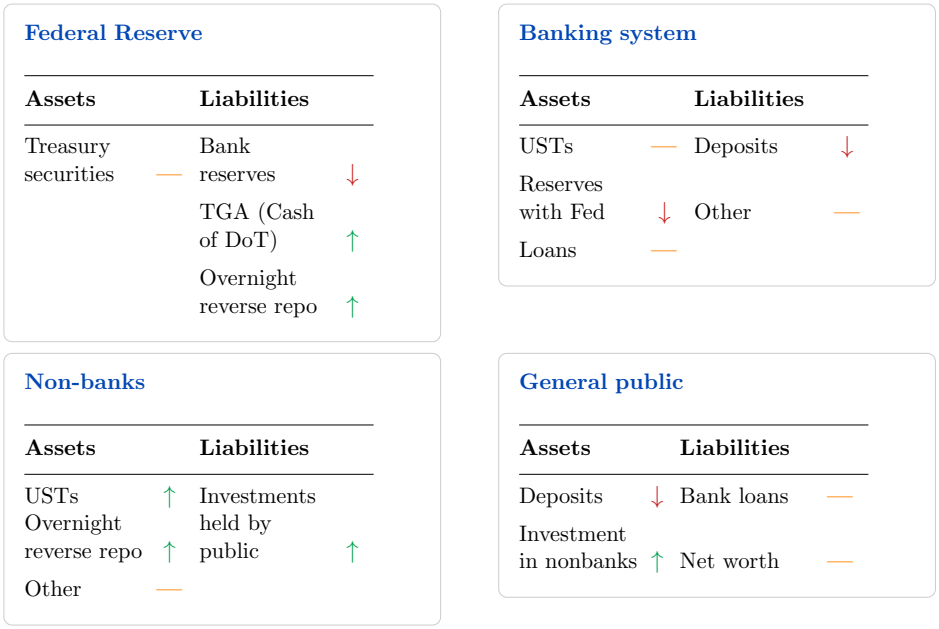

Figure 2: a balance sheet analysis of the various actors affected by the issuance of stablecoins freely adapted from State Street Global Advisors (2025)

of the economy. If retail deposits are substituted for large volumes of wholesale deposits, the issuance of long term credit to fuel productive investment will become costlier. That is what we call the sterilization of liquidity. Directly if banks are disintermediated or indirectly by changing the nature of deposits is re-routed towards inert short term safe assets instead of long term (sometimes more risky) productive investments.

Beyond the re-routing of liquidity towards sterile short-term safe assets, stablecoins indirectly affect the money multiplier effect in significant ways. The volumes of money that the general public no longer places as retail deposit but serves to buy stablecoin tokens participate in a less responsive way to the money multiplier effect. The portion of the money supply that serves as reserve for stablecoins, and may or may not be placed as wholesale deposit, weakens monetary policy efficiency because it does not respond as effectively to central bank interest rates or other policy tools as credit creation based on retail deposit.

Aldasoro et al. (2024) provide empirical evidence that stablecoins and money market funds respond in opposite directions to monetary policy shocks. Using data from 2019-2024, they document that while prime money market fund assets rise following monetary policy tightening, as investors seek higher yields, stablecoin market capitalization declines. This suggests that stablecoins do not serve as automatic transmission channels for monetary policy but instead respond to broader crypto market dynamics.

Because stablecoins sterilize part of the monetary base, they change the money elasticity in the monetary system. In today's international financial markets, dollar dominance

is massive and already weighs on other currencies' central banks monetary transmission possibilities. With stablecoins, and especially USD denominated stablecoins, the responsiveness of the monetary base to central bank policies erodes even further. This applies to both contraction or expansion of the monetary base. The required efforts of central banks to effectively monitor the monetary base in the interest of stability for the real economy increases if stablecoins expand. This represents a hidden cost for all economic actors.

2.2.2 Velocity of money and dual economies

The reduced efficiency of monetary policy in the presence of large volumes of stablecoins can also be approached through the lens of the velocity of money. Indeed, velocity of money measures the rate at which money changes hands and therefore the vitality of transactions in an economy. It is defined as the ratio of GDP to the money supply. If functioning as substitute for money, we have seen that stablecoins re-route part of the liquidity away from the money multiplier of commercial banks towards sterile deposits as token issuance mimicks narrow-money banking. The money supply is therefore reduced and the overall effect of stablecoins is an increase in the velocity of money. On the other hand, faster, nearly instantaneous transactions through DLTs may increase economic activity and lead to one monetary unit to be used for an increased number of transactions, or said differently, more economic activity is performed with the same volume of money (Fireblocks, 2025). This also leads to an increase in the velocity of money. This increased velocity may bring about two indirect consequences.

First, the gap between real economic activities and the financial sector activities may widen further. An increased velocity in the realm of tokenized transactions would largely outpace the rythm of real transactions down the economic chain. Stablecoins, if systemic and largely used for settling payments, may further polarize the economy into a slower set of real economic activities conducted within the traditional two-tier money world and another set of financial activities characterized by fast and volatile transactions conducted within a token-based system. The increased disconnection between the real economy and the financial sector is conducive to bubbles, booms and busts in the economic cycle.

Second, while monetary transmission may become less effective (see previous section), it may also become faster due to the instant spread of decisions into DLT systems. An increased velocity from accelerated monetary transmission may create more unstable and erratic financial conditions. The increased efficiency in payment speed goes hand in hand with higher volatility and erraticness of monetary adjustments to macroeconomic conditions. State Street Global Advisors (2025) documents asymmetric effects: modest stablecoin inflows suppress Treasury yields only marginally, while large outflows trigger significant yield spikes, suggesting procyclical dynamics that could amplify financial

stress.

2.2.3 The negative interest rate constraint

Besides their effect on the money supply and the velocity of money, stablecoins create an additional constraint on monetary policy tools. They may prevent monetary authorities from resorting to close to zero or negative interest rates on central bank deposits. The business model of stablecoin issuers relies on earning profits from collateral assets held in a one-to-one proportion with their tokens. In practice, these are equal to short term sovereign bond yields. Stablecoin issuers' profitability therefore depends on positive central bank interest rates. If pure player stablecoin issuers become a systemic group of financial actors and reach a "too big to fail" status, central banks may be prevented from using close to zero or negative interest rates because of their financial stability mandate.

However, Sumner (2025) offers a counter-argument: he contends that central banks retain ultimate control over the monetary base and can still implement negative rates if needed, as stablecoins remain dependent on the underlying fiat system. In his view, stablecoins are more akin to money market funds than to base money, and history shows that central banks successfully implemented negative rates in Europe and Japan despite the presence of large money market fund sectors. However, money market funds are different than stablecoins in that they do pass through positive returns as well as negative losses to ultimate holders. The pass through can take the form of reduced yields or reverse splits. Since stablecoins are defined as maintaining a peg - a stable value - they cannot credibly pass through negative rates through depreciation.

2.2.4 Stablecoins and the shortage of global liquidity

When it comes to global liquidity and the shortage of safe assets to satisfy global demand, the emergence of stablecoin markets may worsen the current shortage situation (see also Appendix). Indeed, one scenario is that the new demand of USD safe assets to back tokens one-to-one displaces some of the demand for safe assets. This leaves the remainder of the financial sector which multiplies money creation through credit, to rely on a smaller pool of USD safe assets to perfom its activities. In this case, the pressure on the U.S. current account imbalance will only worsen (Obstfeld, 2025).

Another scenario might be that the increased demand for USD safe assets by stablecoin issuers is matched by a corresponding increase in U.S. external liabilities (e.g. new issuance of T-bills). This situation would then increase the pressure on an already strained U.S. fiscal deficit. In any of these cases, the contemporary global shortage of safe assets is worsened by stablecoin developments (see Ghymers, 2026).

As a side note however, stablecoins and DLT systems more broadly, may bring about a potential reduction in the needs of safe assets globally because of the nearly instantaneous

character of DLT settlements. Indeed, a large part of the global demand in safe assets serves to hedge various types of risks, amongst which currency risks, in transactions during the lag between contract agreement and settlement. By reducing this time-lag, the same supply of safe assets may serve a higher number of transactions and hence ease the shortage of global liquidity.

2.2.5 Hidden cost for monetary policy transmission

Stablecoins may effectively sterilize significant volumes of the money supply by re-routing it towards sterile short term safe assets instead of long term credit for productive investments. As an indirect result of this surge of "narrow banking", the money multiplier effect is dampened and so is the ability of central banks to influence credit volumes for the real economy. Stablecoins also have an ambiguous effect on the velocity of money, potentially breaking down the economy into two worlds: one of slower fiat money based economic activities and the other of faster token-based financialized economic activities. Finally, the business model of pure player stablecoin issuers, if they become systemic, may prevent central banks to resort to close to zero or negative interest rates.

Table 2 summarizes the channels through which stablecoins may affect monetary policy transmission.

Table 2: Channels of Stablecoin Impact on Monetary Policy Transmission

Channel	**Mechanism**
Money supply	Sterilization of liquidity through re-routing of retail deposit from long term productive credit to inert short term safe assets
Money multiplier	Reduced responsiveness of monetary policy as stablecoins similar to narrow banking
Velocity increased	Dual economy emerges
Negative rate floor	Stablecoin business continuity poses a constraint if "too big to fail"

To sum up, stablecoins render monetary policy transmission more costly through various mechanisms that we have detailed. This decreases trust levels in the current fiat-money system. The hidden cost of earning credibility, or trust, outside of the traditional banking system is supported by the whole economy. The evidence base for these effects remains incomplete, as stablecoins are still a relatively recent phenomenon and their interaction with monetary policy across different interest rate environments has not been fully tested. However, the theoretical mechanisms are clear, and early empirical evidence suggests cause for concern.

2.3 A new form of Gresham's law: stablecoins to exchange, central bank money to hoard

Another political economy consequence of stablecoin developments is the increased differential in inherent and perceived value of currencies depending on their form. If stablecoins are included in the realm of legal tender money, we argue that trust in money may start to vary according to its form. Digital tokens, commercial bank money, physical notes and coin values may disconnect. As a consequence, a sort of revival of the Gresham Law emerges where one uses stablecoins as a means of exchange but hoards central bank money for storing value. Such a phenomenon would have social justice consequences at both national level - where access to "qualitative" forms of money may stop to be guaranteed for all economic actors - and at international level - where international currencies in stablecoin form may be used as stores of value whereas national central bank money only as means of exchange. Additionally, stablecoins may worsen the shortage of safe assets at global level.

2.3.1 Gresham's Law mechanism applied to stablecoins

Referring to 16$^{\text{th}}$ century issues of trust in the debased English currency of the time, the Gresham Law states that *"bad money drives out good money"*. Good money is traditionally defined as money that shows little difference between its nominal value and its melt value (intrinsic worth), while bad money would be significantly less valuable in substance than its face value. The principle is that when different forms of money with the same face value show significant spreads in intrinsic value, the money forms with higher intrinsic value tend to be hoarded by market actors while they tend to dispose of the lower value forms. The gradual decoupling of value between different forms of money, putting at risk the principle of singleness, is referred to as monetary fragmentation.

In the context of stablecoins, the modern form of "debasement" is not the shaving of precious metals from coins, but rather the potential gap between the promised one-to-one redemption value and the actual quality and liquidity of collateral. In the current monetary environment, the BIS documents recent deviations from par ("de-pegs") for USDT and USDC stablecoins that sometimes amount to various percentage points (Aldasoro et al., 2025). The most famous empirical example of this modern debasement is the USDC depegging of March 2023. When Silicon Valley Bank collapsed on March 10, 2023, Circle's disclosure that $3.3 billion of USDC reserves were held at the failing bank triggered a sudden loss of peg stability, with USDC falling to $0.8789 before recovery (Gorton et al., 2025). The Federal Reserve's analysis documents that the primary redemption market effectively shut down during the crisis weekend, transferring all redemption pressure onto secondary markets (Watsky et al., 2024).

This episode reveals the conceptual problem: stablecoin value depends not on the

underlying reference asset but on the continuous solvency and operational functioning of private intermediaries: issuers, banking partners, redemption mechanisms. When any link fails, the "stable" value collapses as long as no formal or de facto redemption mechanism is established with a Lender of Last Resort. Stablecoins can be compared to fixed exchange rate regime, where the value of the collateral remains within a narrow band around the anchor currency. But unlike fixed rate regimes with a genuine currency, which derives its value from monetary sovereignty backed by a central bank, stablecoins derive their value from private promises contingent on commercial banking infrastructure. Treating them as money-equivalent in regulatory or policy frameworks misrepresents their fundamental nature as units of sovereign money rather than claims on intermediating financial structures.

Besides the important risk of runs on stablecoins once these deviations are perceived by economic actors, there is a risk of fragmentation of the different forms of money. Jean-Pierre Landau states that "stablecoins could threaten central banks' control over the unit of account, which is required for effective monetary policy" (Landau, 2025). If issuance of tokens that claim legal tender are performed totally outside of monetary authorities' control, the "coincidence between the unit of account and the medium of exchange" upon which the whole system rests is at risk. He argues that the form of money matters as much as the quantity for sound monetary policy (see section 2.2 of this paper).

Concretely, the renewed version of the Gresham Law applied to stablecoins potentially translates into a dual monetary system. On the one hand, stable and strong forms of money may be sought after as stores of values. Along other conjunctural and geopolitical elements, recent rallies in the value of the Swiss franc or precious metals are recognized as being driven by hedging behaviors against traditional currencies in a low growth, high inflation and risky geopolitical environment (Financial Times, 2026) and (Financial Times, 2025).

On the other hand, stablecoins may be increasingly used as a means of exchange. Mandeng even argues in a theoretical exercise that instant financial money transfers through distributed ledgers may render traditional money forms obsolete. He argues that "When any securities portfolio can be converted into money on demand, without delay, cost or haircut, the cash-in-advance constraint ceases to bind in any meaningful intertemporal sense. Agents no longer need to hold money. Instead, money is obtained just in time for settlement and immediately reconverted into yield-bearing assets. Money continues to exist as a settlement instrument, but only as a transient state within the transaction flow rather than as an asset held across time" (Mandeng, 2026).

Some contest the fact that stablecoins endanger the singleness of money. Derivaux (2024) for instance, claims that despite their volatility, stablecoins must be considered as equivalent to Eurodollars in the "hierarchy of money". It is generally agreed that different money forms, from central bank money to commercial deposits, do not show totally

similar risk structures. However, the existence of formal and historical commitments by central banks to provide liquidity to commercial banks in times of stress is a real threshold that separates bank deposits into the realm of money from other liquid and money-like assets.

The fragmentation of the monetary system, if stablecoins take a large-scale place in the realm of legal tender money, creates social justice challenges both on the domestic level and on the international level.

2.3.2 Stratification of access to banking at the domestic level

On the domestic level, stratification in the access to traditional banking may arise. Access to quality banking services and access to stable and strong traditional currencies, guaranteed by central banks, may ultimately become a costly service. The number of economic actors able to store their earnings as long-term guaranteed deposits may diminish. At the same time, an increasing number of less endowed market participants may shift to quasi-digital banking services from stablecoin platforms. These platforms may seem attractive for their reduced transaction costs, but their service cannot be compared to proper banking intermediation, rather the exchange of tokenized assets short of any access to decently ensured redeemability. In a large-scale survey, Zamora-Pérez (2026) investigates the profiles of crypto-currency owners in euro-area countries. He shows that crypto-ownership essentially serves a store of value function and is correlated with profiles holding large amounts of cash. Campino and Yang (2024) reports that crypto users are predominantly a young and tech-savvy population. Simulations of the effects of Central Bank Digital Currency adoption shows that stratification of ownership of different forms of money is a real risk. Chang et al. (2023) show "richer households increasing their holdings of deposits because of higher interest rates" and "poorer households who switch from deposits to the CBDC".

2.3.3 Monetary sovereignty endangered internationally

On the international financial system level, sovereign authorities from countries with less stable currencies may suffer from the potential capture of large volumes of international savings by stablecoin issuances in strongly anchored reference currencies, such as the USD. While currency susbtitution is not directly a threat for countries enjoying stably anchored currencies, it becomes a real threat for countries lower in the hierarchy of money (Arauz, 2021). For global south citizens especially, USD denominated stablecoins may grant an easy access to a safe haven for their savings (Sanjeev, 2025). Local currencies will then only serve to settle daily transactions and lose their role of store of value. While this provides benefits for indivdidual citizens, it creates collective action problem for large scale economic development: as more citizens exit the peso, monetary authorities

lose further leverage on their own monetary policy, tax collection capacity and ultimately institutional state building. Albeit one may argue that these movements are not new and are in fact an export of "stability", the easiness with which stablecoins enable such movements is of a different scale as what we have seen so far. Because stablecoins encourage capital flight, the hoarding of anchor currency-denominated tokens deprives countries of monetary sovereignty and tax collection. Evidence from emerging markets supports this concern. Such movements have been noticed in Argentina, where citizens increasingly hold USDT as a protection against high inflation (Cohn, 2025). Reuter (2025) develops a methodology to estimate international stablecoin flows and find that while absolute stablecoin volumes are largest in developed markets, relative to GDP the flows are most substantial in Africa, the Middle East, and Latin America and the Caribbean. They document a systematic relationship between net stablecoin inflows and domestic currency weakness against the U.S. dollar. Standard Chartered projects that emerging market economies could see deposit outflows of up to $1 trillion over the next three years as citizens shift to dollar-denominated stablecoins. For sub-Saharan African countries where tax-to-GDP ratios average only 13%, below the 15% threshold considered necessary for basic development—such capital flight represents a fundamental challenge to fiscal capacity (Sanjeev, 2025).

As Rey (2025) concludes, the rise of stablecoins may force a fundamental rethinking of monetary sovereignty in a world where private digital money can flow across borders with unprecedented ease.

3 Conclusion

To conclude, we have seen that with regards to the institutional history of the monetary system, stablecoins are not a mere technological innovation for payments or digitalization of money. They have profound reshaping effects on the monetary arrangements of two-tier fractional reserve banking and fiat-money with political economy consequences.

We have shown that if stablecoins become a systemic feature of the financial system and incorporated as a new form of money, they may (a) reshape the roles of money creation towards a three-tier system, adding technology platforms as intermediaries alongside central banks and commercial banks; (b) weaken central bank's abilities to conduct efficient monetary policy and (c) create value differentials between tokenized forms of money used as means of exchange and traditional central bank money forms used for storing value in a renewed version of the Gresham Law. This brings along significant social justice implications at the national level and monetary sovereignty issues at the international levels. Therefore, in the event that stablecoin issuance grows steadily and become a systemic feature of international finance, their treatment as equivalent to money would damage the trust structure embedded in the international monetary system.

3.1 Policy recommendations

As a consequence of our analysis, we argue that stablecoins must be treated as non-money assets, similarly to money-market funds or e-monies. This means:

1. **No legal tender status**: Stablecoins should not be granted legal tender status or treated as equivalent to central bank money for regulatory purposes.

2. **Clear asset classification**: Stablecoins should be classified as financial instruments subject to similar regulations as other securities such as money market funds which they are functionally similar to.

As a second-best alternative, if regulators are to consider them as tokens with legal tender, we argue in favor of stringent regulation of stablecoin issuers effectively elevating the prudential requirements to the same level as commercial banking standards, and bringing them closer to tokenized deposit short of yield distribution.

3.2 Final reflections

The rise of stablecoins forces us to confront fundamental questions about the nature of money in the digital age. For 50 years, the post-Bretton Woods system rested on a stable two-tier architecture: central banks creating base money, commercial banks multiplying it through credit, all underpinned by trust in state fiscal capacity. This system, while imperfect, provided the monetary stability necessary for unprecedented global economic integration.

Stablecoins, if considered as money-like assets becoming systemic in international finance, challenge this architecture. The policy challenge is to distinguish between innovations that genuinely serve the public interest (lower-cost remittances, faster settlements, financial inclusion) and those that primarily serve private profit through escaping prudential safeguards. This paper has argued that the costs of unregulated stablecoin proliferation is visible in fragmented trust structures through increased systemic fragility, weakened monetary transmission and exacerbated inequality in access to quality money. In short, the promise to make exchanges more efficient comes along with making the whole monetary system more fragile.

If stablecoins are to have a role in the future monetary system, it must be as regulated, transparently managed, and carefully supervised instruments, in effect, bringing them fully within the existing two-tier system rather than allowing them to fragment into three tiers. This regulation should also reduce the misunderstandings from the word stablecoin itself. Indeed, stablecoins issued under various legislative frameworks and by different types of actors (banks and non-banks) are in reality products of quite a different nature and risk profile. The word "coin" itself is misleading semantically as it refers to

the oldest metallic money form. Alternatively and possibly better than the incorporation of stablecoins in the realm of money would be to channel the demand for digital money into publicly-backed alternatives: wholesale CBDCs collaborating with commercial bank retail offerings for instance. This would possibly render the issuance of stablecoins by pure player technology platforms uncompetitive to the issuance by banking entities.

The stakes are high. As Rey (2025) concludes, stablecoins could either strengthen the dollar's global role through digital ubiquity or undermine it through privatized fragmentation. For the rest of the world, widespread stablecoin adoption represents a choice between convenient dollarization and preservation of monetary sovereignty. These are not mere technical questions but fundamental political economy decisions about who controls money and in whose interest monetary systems operate.

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A Appendix: The trust architecture of the fiat monetary order post-Bretton Woods

After World War II, the major economies set up the Bretton Woods system of fixed international currency exchange rates, to be managed by the newly created IMF. This new monetary order was centered on the U.S. dollar (USD) backed by a gold standard, with all other currencies pegged to the USD. In 1969, the IMF created the Special Drawing Rights (SDR) as an additional reserve asset that member countries could rely on to supplement their reserves when extra liquidity was needed. The SDRs then, were equivalent to the weight of gold corresponding to one USD. This arrangement was de facto halted in 1971 with the "Nixon shock," when the then U.S. president unilaterally put an end to gold convertibility of the USD. From 1973, a floating exchange rate regime replaced the post-war monetary arrangements. In 1976, the Jamaica accords formally put an end to the Bretton Woods system and since that period, the SDRs emitted by the IMF have been redefined as a basket of key world currencies.

Over the last 50 years, the international monetary system has in essence been built on fiat money. In the absence of any physical backing, the face value of currencies stems from the expectation that public authorities' will be able (governments and central banks) to maintain their stability over time through sound fiscal and monetary management. Trust in this expectation is continuously earned through transparent policies, effective crisis response, and the consistent delivery of economic stability. Where public authorities meet expectations, a feedback loop of trust emerges reinforcing the efficiency of the policies that are intended to do so as has been shown by De Grauwe and Ji (2022).

A.1 Two-tier system and singleness of money

Fiat money is created through a two-tier money creation system. The central bank tier creates the monetary base in the form of cash and reserves held by commercial banks. The commercial bank tier creates most of the money supply through the money multiplier effect. The money multiplier points to the possibility for commercial banks to offer credit in excess of the reserves held according to prudential rules and their market sentiments (also known as fractional reserve banking). The total stock of money in circulation therefore results from a subtle collaboration between central banks managing the monetary base and commercial banks multiplying that base through credit.

Central to fiat money systems is the "singleness of money". This means that various money forms (from physical cash to digital deposits) must hold the same value at all times, must be interchangeable as perfect substitutes and must ultimately be redeemable at par with central bank money (Goodhart, 1998; Garratt and Shin, 2023). Singleness of money is paramount for a currency to render its three primary functions theorized in

the 19th century (Jevons, 1875): medium of exchange, unit of account and store of value. Economic exchanges can happen seamlessly because all forms of money have a single value. If money forms where not perfect substitutes, stable value of a currency could not be guaranteed.

A.2 The dollar's role and the exorbitant privilege

Over the past 50 years, the exchange and relative valuation of different national currencies has functioned thanks to the central role of the USD. In the post-Bretton Woods monetary system, currency exchanges are determined by supply and demand in the very large and liquid foreign exchange market (forex). Rates generally float reflecting structural, conjunctural and interest-rate differentials as well as market sentiments. The Bank for International Settlements (BIS) stabilizes and enables these transactions by providing services as a "central bank for central banks".

Among the international fiat currencies, some are trusted and appreciated beyond their borders, for their relative stability or their liquidity. Not least amongst them is the USD. This means that when international trade or investment transactions are made, the actors involved tend to either invoice their transaction in USD or hedge their positions with a liquid and safe asset: USD themselves or liquid USD-denominated securities such as T-bills or derivatives of them. Amongst these types of derivatives, the most important ones are repurchase agreements (repos) and currency swaps. The repo market alone exceeds $4 trillion in daily volume, while the cross-currency swap market represents over $20 trillion in outstanding notional value, both dominated by dollar-denominated instruments (Aldasoro et al., 2025).

This situation where the USD has acquired the status of ultimate safe asset has contributed to increase the depth of its capital markets and created a global demand for the currency. The U.S. has only been able to meet this USD demand through increasing its outstanding liabilities. As the global demand for dollars kept rising, the US has benefitted of relatively low interest rates on its public debt issuance. This cheap deficit financing is what Valéry Giscard d'Estaing called the *"exorbitant privilege"* (Eichengreen, 2011) of running the reference currency. The resulting tension for monetary policy between accommodating global demand of the ultimate safe currency while keeping domestic public debt or current account imbalances within rails has been coined the *"Triffin Dilemma"* after Belgian economist Robert Triffin (Triffin, 1960). In short, a national currency cannot sustainably serve as a source of global liquidity over the long run. As long as the size of the US economy is large enough relative to the global economy, it can perform its role of hegemon of the current international monetary system providing liquidity for global frictionless exchanges. But it is increasingly questioned whether this condition is still fulfilled, particularly as stablecoins may alter the dynamics of this privilege (Rey,

2025).

Because of the central role of the USD in the international monetary system over last half century, payment systems have been dominated by a handful of U.S.-based actors. The infrastructure that enables the settlement of cross-border transactions worldwide is such that most international transactions are ultimately cleared through U.S. correspondent banks. This reinforces further the dollar dominance and the influence of U.S. financial institutions. Prasad (2014) provides a comprehensive analysis of how this infrastructure embeds dollar dominance in the global financial architecture, creating path dependencies that make alternatives to the USD extraordinarily difficult despite periodic concerns about U.S. fiscal sustainability. An often-cited example is SWIFT, the main interbank communication network for payments, incorporated in Belgium but with major control of U.S. banks.

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