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Stablecoins and the Monetary and Financial System

The future role of stablecoins in the global monetary and payments system remains uncertain. Stablecoins may evolve into a more significant component of financial infrastructure, or they may remain a relatively specialised instrument within specific aspects of the digital asset ecosystem. At present, it is too early to determine their long-term trajectory. Regardless of their eventual scale or scope, the emergence of stablecoins raises important policy questions. A key challenge is to ensure that their development does not give rise to unintended risks for financial stability or the functioning of the financial system. This should enable society to benefit from technological innovation while safeguarding trust, financial resilience and monetary sovereignty. This article examines the concept of stablecoins, their technological and economic foundations, and their potential use cases. It further discusses recent developments in the political and regulatory environment, and assesses the implications of stablecoins for financial stability, monetary sovereignty, and the balance between public and private forms of money. Finally, it outlines key policy considerations for ensuring that the evolving monetary ecosystem remains resilient and well-functioning in the face of rapid technological change.

A stablecoin is a digital token designed to maintain a stable value relative to an underlying asset, most commonly a fiat currency. In most cases, this stability is achieved by backing the token with cash or short-term government securities. In essence, a stablecoin can be understood as a backed crypto-asset that seeks to avoid the price volatility associated with unbacked cryptoassets such as Bitcoin.

From a financial perspective, stablecoins share some characteristics with well-established instruments such as money-market fund shares or deposits in narrow banks. Consequently, many of the risks associated with stablecoins are conceptually familiar.

What distinguishes stablecoins from these traditional instruments is their technological foundation. Stablecoins operate on distributed ledger technology (DLT), which allows the to-

ken to function as a transferable digital bearer instrument – conceptually similar to cash – without requiring the holder to maintain a bank account or register with the issuer. At the same time, DLT enables new functionalities, including the automated execution of transactions within DLT-based environments.

DLT offers several operational advantages. It operates continuously, supports programmability, and enables the integration of multiple functionalities and transactions within a single automated workflow. Bitcoin is frequently cited as the first widely adopted cryptoasset built on DLT. Introduced in the aftermath of the global financial crisis, it was inspired by the ambition to establish an alternative to banks and central banks: a decentralised financial ecosystem in which trust in institutions would be replaced by trust in code.

Nearly two decades later, it is widely recognised that these ambitions have not been realised. Bitcoin has proven too volatile and too inefficient to function effectively as money – that is, as a medium of exchange, a store of value or a unit of account. Instead, it has largely evolved into a speculative asset.

Nevertheless, certain technological features are gradually gaining traction. This particularly pertains to features related to settlement efficiency, transparency and programmability.

Stablecoins may therefore be understood as a pragmatic compromise. They combine the technological features of DLT with the stability derived from fiat-denominated backing and the institutional credibility of existing financial systems.

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Open Access funding provided by ZBW – Leibniz Information Centre for Economics.

* This article is based on a speech on “Stablecoins and Money” at the Centre for European Policy Studies on 21 January 2026. The author would like to thank Anne Brolev Marcussen and Samuel Eddie Mogenssen for the excellent comments and suggestions. The views expressed in this article are solely those of the author.

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Stablecoins are typically discussed in relation to three interconnected use cases:

- payment and settlement, particularly for crypto assets and, potentially, tokenised financial assets on DLT-based platforms
- retail payments, including cross-border transfers and remittances
- store-of-value access to the underlying fiat currency, most notably US dollars.

Despite these potential applications, adoption remains relatively limited. Most stablecoin activity takes place within the crypto-asset ecosystem, where stablecoins are primarily used to settle transactions involving other cryptoassets. The global market capitalisation of stablecoins remains modest, reaching approximately US \$300 billion in 2025 – albeit with some fluctuation. This corresponds to roughly half a percent of the US equity market. Retail usage and store-of-value applications remain limited, although they have shown gradual growth.

The relatively slow pace of adoption is notable given that the underlying technology has existed for nearly two decades. Several explanations could be put forth. It could be argued that regulatory uncertainty – particularly in the United States – has been a key factor constraining development, with industry and stakeholder dynamics contributing to delayed regulatory clarity or the emergence of frameworks that limit usability. Also, demand for stablecoins may have been driven by opportunities for regulatory arbitrage rather than the benefits of the technology. By comparison, artificial intelligence – another frontier technology – expanded rapidly following the first wave of widely accessible chatbots in 2023, despite limited political or regulatory support. Admittedly, the comparison is imperfect. Artificial intelligence is a general-purpose technology, whereas stablecoins and DLT rely heavily on network effects. Nevertheless, the debate remains ongoing.

Explaining the current attention to stablecoins

The renewed focus on stablecoins seems to reflect two principal developments. First, political dynamics are evolving. The current US administration has adopted a more supportive stance towards cryptoassets and stablecoins. US dollar-denominated stablecoins dominate global issuance and are viewed by some policymakers as potentially reinforcing the international role of the US dollar. In addition, they may sustain demand for US Treasury bills and indirectly support the financing of US fiscal and external imbalances.

At the same time, the European Union and other jurisdictions have raised strategic concerns regarding the extensive role of US payment providers and US dollar-denominated pay-

ment infrastructures. The growth of stablecoins could potentially deepen these dependencies. These concerns are closely linked to broader discussions surrounding strategic autonomy, resilience and financial stability.

Second, the regulatory environment is undergoing significant development. The Markets in Crypto-Assets Regulation (MiCAR) represents one of the first comprehensive regulatory frameworks governing the issuance, trading and custody of cryptoassets, including stablecoins.

In the United States, legislative initiatives are also progressing, including the GENIUS Act and the proposed Clarity Act. These initiatives are expected to provide greater regulatory clarity, particularly regarding reserve composition and remuneration structures. Together, such developments have reduced regulatory uncertainty and may lower barriers to participation by financial institutions.

Prospects for expansion

Whether stablecoins will experience substantial growth under these conditions remains uncertain. Market capitalisation reportedly increased by approximately 50% in 2025, and financial institutions are increasingly exploring the use of stablecoins, either for wholesale settlement purposes or as part of broader crypto-related service offerings.

However, sustained growth will ultimately depend on the emergence of economically meaningful use cases. The available evidence remains mixed. Cross-border payments and remittances are frequently cited as potential areas of application. However, the extent to which stablecoins are currently used systematically for such purposes remains unclear (Reuter, 2025).

Another potential application is access to US dollar-denominated stores of value, particularly in countries characterised by weaker financial systems or high inflation. By contrast, in jurisdictions with efficient domestic payment infrastructures and stable inflation – such as the European Union – demand for such use cases is expected to remain limited.

Interest has also emerged in the use of stablecoins as wholesale settlement assets on DLT-based trading platforms. However, this possibility depends on whether DLT achieves significant scale within financial market infrastructure.

Should DLT become widely adopted, stablecoins may prove to be a convenient and efficient settlement instrument. At the same time, they could face substantial competition from alternative forms of tokenised money, including tokenised bank deposits, tokenised money-market funds and potentially wholesale or retail central bank digital currencies (CBDCs).

The future monetary ecosystem may well involve a combination of these instruments.

In summary, while considerable uncertainty remains, it would be premature to dismiss the possibility that stablecoins could achieve broader adoption.

Assessment of benefits and risks of stablecoins

When assessing potential benefits and risks of stablecoins, central banks typically focus on three key dimensions: financial stability, monetary sovereignty, and the relationship between public and private forms of money.

Financial stability

Stablecoins exhibit risks that are conceptually similar to those associated with money-market funds and narrow banking models.

One concern relates to credit and liquidity mismatches, which may expose stablecoins to run dynamics. The largest stablecoin issuers are now significant holders of short-term US Treasury securities and maintain substantial bank deposits as reserve assets. A disorderly redemption episode could therefore require rapid asset liquidation, potentially transmitting stress to sovereign debt markets or the banking system. While the current market size limits systemic risk, the potential transmission channels warrant attention.

The potential for cross-border spillovers adds to this concern. The ECB has highlighted risks associated with US dollar-denominated stablecoins issued within Europe under multi-issuance models, should these instruments become systemic (Aerts et al., 2025). Similarly, the European Systemic Risk Board (2025) has called for enhanced regulatory scrutiny and coordinated international policy responses.

A second concern relates to potential deposit displacement. Widespread retail adoption of stablecoins could divert deposits away from the banking sector, potentially affecting bank funding structures and credit provision. The MiCAR framework mitigates this risk by requiring EU-issued stablecoins to maintain a substantial share of reserves in bank deposits.

At present, financial stability risks in the EU appear limited. Nevertheless, indirect transmission channels – through money markets, collateral chains and cross-border linkages – warrant continuous monitoring. In jurisdictions where stablecoin usage is expanding more rapidly, these risks may materialise earlier.

On the positive side, stablecoins may stimulate innovation in retail payment systems or money remittances, an area that

has historically evolved slowly in some jurisdictions. In the EU, however, regulatory initiatives such as the EU Instant Payments Regulation already promote efficient payment solutions, thereby reducing the competitive pressure from stablecoins.

Monetary sovereignty

Stablecoins also raise questions regarding monetary sovereignty. Foreign currency-denominated stablecoins could facilitate currency substitution due to their accessibility and strong network effects. Unlike traditional dollarisation, stablecoin usage does not require physical cash holdings or access to foreign bank accounts; a smartphone and internet connection are sufficient.

More widespread adoption of US dollar-denominated stablecoins could therefore reinforce the global dominance of the US dollar and potentially reduce the ability of other jurisdictions to influence their own domestic monetary and financial conditions.

Within the EU, these risks are currently limited due to robust payment infrastructures and credible monetary policy frameworks.¹ However, rising adoption elsewhere could generate spillover effects. In countries characterised by weaker financial systems, less stable inflation, or limited trust in domestic currency, adoption is more likely.

Stablecoins may also raise challenges for financial integrity, particularly in relation to frameworks for Anti-Money Laundering and Countering the Financing of Terrorism (AML/CFT; Adrian et al., 2025). Increased use of privately issued US dollar stablecoins in geopolitically sensitive regions could complicate sanctions enforcement by reducing financial transparency (Bank for International Settlements, 2025).

Public versus private money

Finally, stablecoins raise broader questions about the respective roles of public and private money, particularly regarding seigniorage and data ownership.

Stablecoins constitute privately issued money and therefore resemble bank deposits rather than central bank money, such as cash, reserves or central bank digital currencies (CBDCs).

If stablecoins substitute cash, a portion of the seigniorage generated by central bank money issuance could shift to pri-

¹ Also, the EU's MiCAR sets monetary safeguards. Regulators, following an opinion of the ECB, can halt the issuance of foreign currency-denominated stablecoins if they pose a threat to the smooth operation of payments systems, monetary policy transmission, or monetary sovereignty, see Article 24(3) of MiCAR.

vate issuers. More plausibly, stablecoins may substitute for bank deposits, in which case seigniorage revenues would shift from banks to stablecoin issuers. In either scenario, however, the public sector continues to bear the responsibility for maintaining monetary stability through central bank mandates, regulatory oversight and financial safety nets. This raises the question of whether the regulation of stablecoin issuers sufficiently contributes to stability on par with regulatory frameworks faced by banks, as discussed earlier.

Issues related to data ownership and privacy are similarly important. If stablecoins are used for wholesale settlement rather than central bank settlement balances, transaction data could shift from central banks to private stablecoin issuers or DLT infrastructure providers. In retail contexts, data ownership could move from banks to stablecoin issuers. By contrast, a retail CBDC would place transaction data within the central bank.

Determining which data governance structure best serves the public interest is therefore an important policy consideration. Public trust in both public and private institutions will play a central role, and regulatory frameworks can provide safeguards regarding privacy and data protection.

Policy implications

The issues raised by stablecoins have broader implications for monetary and financial policy. Central banks are unlikely to become technological leaders in payments, nor should they attempt to select technological winners. Their role is to remain technology-neutral, ensuring that new forms of digital money can compete safely and under consistent regulatory conditions (Mogensen et al., 2022).

Regulatory frameworks should therefore focus on the economic function of financial instruments rather than the underlying technology. If stablecoins succeed because of genuine technological advantages rather than regulatory arbitrage, the regulatory framework can be considered effective. While foundational regulatory frameworks have now been established, further international coordination and alignment, as well as alignment with regulations governing comparable financial instruments, will remain essential.

At the same time, maintaining the resilience of the monetary ecosystem during periods of rapid technological change is critical. A resilient system requires multiple independent payment options, each characterised by stability and security. No single stablecoin should become the dominant medium of exchange in a potential tokenised financial system. Conversely, an uncontrolled proliferation of poorly harmonised stablecoins could create uncertainty regarding the value and reliability of money.

The issuance of tokenised central bank money may contribute to strengthening resilience. This objective underpins ongoing work between national central banks and the ECB on the development of infrastructure for wholesale CBDCs (Adolfson et al., 2025). The goal is to ensure continued access to a central bank-issued or central bank-linked settlement asset for systemically important transactions and to preserve lender-of-last-resort capabilities within a tokenised financial environment. Such infrastructure may also support tokenised bank deposits as a complementary component of the future payments system.

Similarly, the ECB's work on a retail CBDC – the digital euro – is considered relevant for the future resilience of the European payments ecosystem. While there is currently no identified need for a retail CBDC in Denmark, developments related to the digital euro are being closely monitored.

Conclusion

Stablecoins may develop into a more significant component of the global monetary and payments system, or they may remain a relatively specialised instrument. At present, it is too early to determine their long-term role.

Regardless of their eventual trajectory, the central policy challenge will be to ensure that stablecoins evolve within a regulatory framework that maintains a level playing field. Such a framework should allow society to benefit from technological innovation while safeguarding trust, financial resilience and monetary sovereignty.

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