Flossbach von Storch
RESEARCH INSTITUTE

ECONOMY & POLITICS 23/07/2025

Stable Coins: the next American challenge

by THOMAS MAYER

Abstract

The US legislation for so-called stable coins, a special type of digital means of payment, is a milestone for the digitalisation of the monetary and financial sector.

Zusammenfassung

Die US-Gesetzgebung für sogenannte Stable Coins, eine besondere Art digitaler Zahlungsmittel, ist ein Meilenstein für die Digitalisierung des Geld- und Finanzsektors.

US legislation on stable coins, a special type of digital currency, is a milestone for the digitalisation of the monetary and financial sector. With the digital euro, the EU hopes to counter the American approach to private stable coins. But this is likely to fail.

GENIUS instead of CBDC

On 18 July 2025, US President Donald Trump signed the GENIUS Act into law. The aim is to create reliable regulation for stable coins, a digital means of payment pegged to the US dollar that has quickly become a popular alternative to traditional bank money in several countries. Complementing this, Congress passed the CLARITY Act, which tasks the Commodities Futures Trading Commission (CFTC) and the Securities Exchange Commission (SEC) with regulation, and the Anti-CBDC Surveillance State Act, which prohibits the Federal Reserve from developing or issuing a central bank digital currency (CBDC) without the express authorisation of Congress.

According to the GENIUS Act, issuers of stable coins must meet the following requirements:

- Each stable coin issued must be backed one-to-one by reserves in the form of cash, bank deposits at insured institutions, short-term US government securities (T-bills), government-backed (with T-bills) money market funds or central bank reserves. These reserves may only be used for repurchase-operations or as repo collateral.
- Interest payments to stable coin holders are prohibited.
- Regular reports certified by senior management and audited by auditors must be published on stable coins issued and their coverage. Issuers with a volume exceeding USD 50 billion must submit audited annual financial statements.
- Banks and credit unions, non-banks if they are financial companies or are certified by unanimous consent of the supervisory authorities, may issue stable coins. To do so, they must apply to the relevant supervisory authorities. Issuers are subject to the Bank Secrecy Act and tailored anti-money laundering rules.
- Issuers may not falsely represent stable coins as government-backed or legal tender. In the event of insolvency, the claims of stable coin holders have priority.

According to the White House, pegging the reserve to US government bonds should increase demand for US debt securities and strengthen the dollar as the global reserve currency.[1] Stablecoins are part of the Trump administration's comprehensive

[1] https://www.whitehouse.gov/fact-sheets/2025/07/fact-sheet-president-donald-j-trump-signs-genius-act-into-law/

pro-crypto policy, which also includes a strategic Bitcoin reserve. The ban on the introduction of a Federal Reserve CBDC is intended to keep the development of digital means of payment and value storage firmly in private hands.

The business case for stablecoin users

In principle, the peer-to-peer (direct) transfer of coins via distributed ledger technology (such as blockchain) can reduce transaction costs compared to traditional bank transfers. Whether this actually leads to cost reductions depends on the design of the DLT and the intensity of competition among banks. The lower the energy costs of peer-to-peer payments and the more expensive traditional transfers are due to a lack of competition among banks, the more attractive stable coins are for transactions. If competitive pressure on banks increases due to other stable coin issuers, banks could issue stable coins themselves. Given their massive excess reserves, the permission to back coins with central bank money provides them with a perfect opportunity to do so.

Stable coins are also likely to be of interest to payment service providers such as Apple Pay, Google Pay and PayPal. Currently, these services require a bank card to be registered in order to process payments. They share the fees charged (mostly to sellers) with the banks. With a stable coin, payment services can bring payment processing in-house and thus collect the entire payment fees. Due to their existing networks, established payment services are likely to be the main beneficiaries of the introduction of stable coins. However, the increased profit margin could also lead to competition from new providers if they lure customers away with bonuses (e.g. discounted mobile phones). Amazon and Meta are likely to pose the greatest threat.

However, foreign holders of stable coins, who use the US dollar as a parallel currency to their unattractive national currencies, are likely to benefit the most. According to estimates, around 40%–60% of all US dollar notes are held abroad.[2] With a total of around 2.3 trillion US dollars in banknotes, that would be 1.3 trillion. In the form of a stable coin, these dollar holdings are much more liquid. Demand for dollars abroad could also increase as a result of stable coins, as payments in regions with underdeveloped financial sectors become easier and cheaper. It therefore seems reasonable for US Treasury Secretary Scott Bessent to estimate the future volume of the market for US stable coins at two trillion US dollars.[3]

The business case for issuers

The financial incentive to issue stablecoins is enormous. Thanks to the ban on paying interest on coins, issuers can expect gross income equal to the interest on the cover pool. Currently, the interest rate on central bank money is around 4.3 per

[2] See, for example, https://www.bullionstar.com/blogs/jp-koning/how-much-u-s-currency-is-held-overseas/?utm_source=chatgpt.com.

[3] Dollar Stablecoin Market Could Hit $2 Trillion: Treasury's Scott Bessent - Bloomberg

cent, and US Treasury bills (T-bills) with maturities of less than one year yield between 4.1 and 4.4 per cent. However, banks pay hardly any interest on bank deposits, which is why these are likely to play a role only in the purchase and sale of stable coins. The gross income from interest is only reduced by the costs of building and operating a platform for stable coins.

These costs are likely to be very manageable, especially for large technology companies that are already active in the areas of payment services, e-commerce and social media. Consequently, a fierce battle for users of stable coins is to be expected, which will be fought through incentives for customers due to the ban on interest on credit balances. Due to the network effect, the issuance of coins initially generates increasing economies of scale. However, these economies of scale will decline again as the costs of the incentives granted to expand the network rise. Ultimately, an oligopoly of issuers could emerge if the cost of incentives per customer to gain a monopoly position eventually appears too high to providers. Instead of conquering the entire market at a high cost, they could settle for a significant share at moderate cost (as is already the case among payment providers).

The business case for the US federal government

The White House's explanatory memorandum explicitly states that the creation of stable coins will increase demand for US government debt securities. The obligation to hold reserves primarily in short-term Treasury bills (T-bills) (which is particularly important for issuers outside the banking sector) is also consistent with Treasury Secretary Bessent's announcement that the issuance of government debt will be concentrated on shorter maturities. Reducing issuance at the long end of the yield curve counteracts its increasing steepness. This has arisen because uncontrolled government debt is driving up term risk premiums. Seen in this light, the promotion of stable coins contributes to the management of rapidly rising government debt.

Furthermore, a much more far-reaching consequence is conceivable: the emergence of a fiscal currency. This refers to low-interest or interest-free government debt securities in small denominations that can be used as a means of payment. In Italy, this idea caused a stir in 2018 under the name "Mini-BOTs" in the coalition agreement between the Five Star Movement and the Lega.[4]

The idea was to issue government bonds in small denominations to enable the Italian government to borrow in its own currency. However, it would have been impossible for the Italian government to guarantee the parity of the mini-BOTs with the euro. The mini-BOTs could therefore have led to the creation of a successor to the lira with a flexible exchange rate against the euro. This would probably have led to Italy's exit from the monetary union. As there was no political majority in favour of this, the idea was not pursued.

[4] The name is derived from the Italian term for government bonds, "Buono ordinario del tesoro".

The situation in the US is fundamentally different. The US Congress has the power to force the Federal Reserve by law to cooperate with the US government's policy. This gives the US Treasury the opportunity to dominate the Fed's monetary policy through the issuance of stable coins. In cooperation with an issuer, the Treasury could obtain stable coins against newly issued T-bills. The newly created stable coins could be used to finance additional government spending. Stable coins would become fiscal currencies.

If rising government spending increases inflation, the Fed would have the option of raising its key interest rate. This would allow it to curb bank lending and thus the creation of credit money. However, the issuance of stable coins would not be affected if the Treasury continued to exchange T-bills for coins at the old interest rate. For banks, the issuance of coins would even become more attractive, as they would receive a higher return on their central bank money holdings deposited as collateral for the coins. In this way, coins could displace credit money, as described in Gresham's law.

Seen in this light, the rumours that President Trump wants to transfer the leadership of the Federal Reserve to Treasury Secretary Bessent make sense.[5] The management of the creation of stable coins through the issuance of T-bills and the creation of credit money through the Fed's interest rate policy would then be in one hand. Instead of completely replacing credit money with stable coins, the finance minister could ensure that both types of money coexist.[6] However, it is doubtful that Trump would be so far-sighted.

The business case for the digital euro

If the US government's GENIUS Act does indeed make the US a leader in the development of digital assets and currencies, Europe is likely to fall behind for good in this area. Both the inherently restrictive approach to regulation and the lack of digital expertise among potential providers and users are hindering the development of euro-pegged stable coins by private European issuers. Stable coins are generally permitted in the EU, but under very strict conditions under the Markets in Crypto-Assets Regulation (MiCA), which has been phased in since 30 June 2024. Most importantly, the emission of stable coins is restricted to licensed banks (including banks issuing only electronic money). Non-banks, notably FinTechs, are excluded. However, it is in the non-bank sector, where technical progress is most dynamic. The combination of strict regulation, lack of market interest in euro products and a lack of infrastructure means that stablecoins only play a niche role in the EU.

[5] Scott Bessent could be tapped to lead both Treasury, Fed: What to know.

[6] This would also be desirable from the government's point of view because the profits from money creation (seigniorage) flow to private issuers when stable coins are created, but to the Federal Reserve when paper money is issued.

The eurozone's hope therefore lies in the development of a digital central bank currency. For years, I have been pointing out the advantages of a euro that is 100 percent backed by government bonds held on the balance sheet of the Eurosystem.[7] If the digital euro were established as a "public stable coin," the common European currency could not only be completed without a banking and fiscal union, but it could also acquire the qualities necessary for an international reserve currency. The prerequisite for this would be convincing technology. However, the "price" for successfully establishing the digital euro as an attractive, public stable coin would be to relinquish the European Central Bank's role as lender of last resort for insolvent eurozone countries and to abandon a proactive monetary policy. But there is little understanding of the problems facing the euro and of suitable solutions, and there is little willingness to depoliticise the euro among experts, politicians and the general public.

Conclusion

US legislation on digital means of payment is a milestone for the digitalisation of the monetary and financial sector. With the digital euro, the EU would have the opportunity to counter the American approach based on private stable coins. However, lower technological capabilities, innovation-hostile regulation and provincial politics are likely to ensure that the European Union falls even further behind in this area.

Ultimately, the EU will not be able to escape the digitalisation of money in the long run. If the gap is large enough, it will therefore probably open up to large American providers of stablecoins in euros. If they monetise the debts of eurozone countries by issuing stable coins to expand their network, the European Central Bank's mandate to ensure price stability will be almost impossible to fulfil. But at least the ECB is likely to be spared the merger of central bank governors and finance ministers that is being speculated about in the US.

[7] See, for example, here: To save the euro, turn it into a digital stablecoin, and most recently here: The euro as an international reserve currency – Flossbach von Storch RI.

LEGAL NOTICE

SITE INFORMATION

Publisher: Flossbach von Storch SE, Research Institute, Ottoplatz 1, 50679 Cologne, Germany; Phone +49 221 33 88-291, research@fvsag.com, *Executive Board:* Dr. Bert Flossbach, Dr. Tobias Schafföner, Dr. Till Schmidt, Marcus Stollenwerk, *Chairman of the Board of Directors* Kurt von Storch; *Registration*: No. 120 796 in the Commercial and Companies Register held at Cologne District Court; *VAT-No*. DE200075205; *Supervisory authority*: German Federal Financial Services Supervisory Authority, Marie-Curie-Straße 24 – 28, 60439 Frankfurt / Graurheindorfer Straße 108, 53117 Bonn, www.bafin.de; *Author*: Prof. Dr Thomas Mayer; *Editorial deadline*: 23. July 2025