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US digital asset strategy and the European response

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US digital asset strategy and the European response

Abstract

We discuss the possible effects of the US administration's Digital Assets Strategy (DAS), on the US and Europe. If pursued consistently over time, DAS would tend to weaken the Fed's payments oversight and monetary control mechanisms, with possible adverse consequences including for the dollar's international role. Europe's monetary sovereignty is unlikely to be affected. To ensure that it is indeed the case, the EU crypto markets regulation (MiCA) and the euro's legal tender status may need strengthening. While wholesale CBDCs would benefit the cross-border payment infrastructure, the digital euro in itself would not contribute significantly to protecting Europe's monetary sovereignty.

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This document was requested by the European Parliament's Committee on Economic and Monetary Affairs.

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LIST OF ABBREVIATIONS

ARTs	Asset Reference Tokens
BIS	Bank for International Settlements
BRRD	Bank Recovery and Resolution Directive
CASP	Crypto-Assets Service Providers
CBDC	Central Bank Digital Currency
CP	Commercial Paper
CTFT	Commodity Futures Trading Commission
DAS	Digital Asset Strategy of the United States
EBA	European Banking Authority
ECB	European Central Bank
EMTs	E-Money Tokens
ESMA	European Securities and Markets Authority
EU	European Union
FDIC	Federal Deposit Insurance Corporation
IMF	International Monetary Fund
GENIUS Act	Guiding and Establishing National Innovation for U.S. Stablecoins of 2025
MiCA	Markets in Crypto Assets Regulation
MMF	Money Market Funds
NCBs	National Central Banks
OCC	Office of the Comptroller of the Currency
PWG	President's Working Group on Financial Markets
SEC	Securities and Exchange Commission
SNB	Swiss National Bank
US	United States

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EXECUTIVE SUMMARY

- The **Digital Asset Strategy** (henceforth, DAS) laid out in two recent US President's executive orders involves **three main actions**:
    - assigning a **new government task force to regulate cryptocurrency markets**, with a view to making the United States the centre of digital financial technology innovation
    - **building a governmental reserve of crypto assets**, with the purpose of centralising, securing, or maximising their value
    - **prohibiting US agencies from establishing, issuing and promoting CBDCs** in the US and abroad.
- **DAS is a major policy initiative**, reminiscent in certain respects of President Nixon's 1971 decision to untie the dollar from gold. If pursued consistently over the years – something we regard as uncertain – it **may change the face of the US monetary and financial sector with profound, probably adverse, implications for the dollar's international role**.
- We focus on a key objective of DAS: promoting the development and use of dollar-based stablecoins. Exchanged on blockchains like cryptocurrencies such as Bitcoin, stablecoins are pegged to remain close in value to the US dollar. Though not offering a clear enhancement on the existing payment infrastructure, if actively promoted, **stablecoins could end up replacing, fully or partly, traditional payment instruments settled and overseen by the central bank**. If so, the **Fed's oversight function and monetary control mechanism would be weakened**. Since stablecoins oscillate in value, though normally by small amounts, and are at risk of runs due to their uncertain backing, **the unicity of the dollar as unit of account would also be jeopardised, and the possibility of runs also adds a source of financial instability.**
- Concern has been expressed that the promotion of dollar-backed stablecoins may threaten Europe's "monetary sovereignty". **Monetary sovereignty is seen as depending on two conditions: dominant use of the domestic currency for transactions and contract denomination; existence of effective monetary policy instruments. Neither of these conditions would be endangered** by a greater diffusion of dollar-denominated stablecoins, unless either of two situations materialise: the euro area (or parts of it) "dollarises"; or euro-backed stablecoins replace traditional payment instruments overseen and settled by the central bank. We suggest ways in which **the legal tender status of the euro and the EU crypto markets regulation (MiCA) could be adjusted** to contain these risks. In addition, the risk of stablecoins weakening financial stability in the US makes the monitoring by regulators of European institutions' exposure to foreign shocks more relevant than it already is.
- It has been argued that the digital euro in preparation at the ECB would protect Europe's monetary sovereignty against DAS or other risks. We tend to disagree. "Dollarisation", an exceedingly unlikely outcome, especially if the euro's legal status is properly established, would not in any case be prevented by the digital euro: an instrument constrained by design to be in small supply and whose commercial success is uncertain. Merits and drawbacks of the digital euro remain actively debated on other grounds; in our view, a wholesale version of it would be beneficial. However, **protecting monetary sovereignty does not add significantly to the balance of arguments for or against a retail digital euro as currently planned**.

1. INTRODUCTION

Among the many executive orders signed by the US president, two refer to launching a Digital Asset Strategy (henceforth DAS[1]); an ambitious program aiming to make the US the leading centre for issuance, exchange and use of crypto assets. In the President's own words, the "crypto capital of the world" (White House, 2025b; Factsheet).

This represents a remarkable *volte-face* for a President who had stated, in 2021, that Bitcoin was "a scam" (BBC, 2021). During the 2024 campaign, this position was reversed and some promises were made, among which creating a national stockpile of crypto-assets, making the US the exclusive global Bitcoin mining centre, and firing the Chair of the Securities and Exchange Commission, Gary Gensler, who was advocating strict regulation of the crypto industry (CNBC, 2024). Crypto regulation has remained pending since then, and is now approached differently, as we shall see. In the meantime, those promises, which DAS fulfils, drove Bitcoin prices to record highs.

We recall these precedents because radical changes such as those could happen again. Multiple reversals have already occurred in other US policies, for instance, regarding trade tariffs. Making the US the leading crypto centre entails rather fundamental changes to how the US monetary sector has long been organised. This requires stable and consistent action over time, not unsteady hand and stop-go decisions of the kind we have become accustomed to. Policy reversals could occur, for example, if DAS caused adverse side effects – financial instability, excessive volatility of the dollar or the Treasuries market, or the like. As these eventualities are hard to assess, we only consider a scenario in which the announced strategy is executed fully and permanently – a working hypothesis, not one to which we assign a 100% probability.

To appreciate the nature of those changes, a brief historical detour is of help[2].

The US payment and financial system began assuming the configuration it has now in 1913, when the Federal Reserve System (Fed) was founded. Combining Woodrow Wilson's federalist centralism and the bank-centric vision of the New York financiers who had managed the 1907 crisis (led by Benjamin Strong, who would assume the presidency of the New York Fed), Congress assigned to the new "System" multiple purposes: "*... to furnish an elastic currency, to afford means of rediscounting commercial paper, to establish a more effective supervision of banking in the United States, and for other purposes*."[3]

Among the "other purposes", the Fed took up the task of reorganising the monetary system. After the Civil War, the US had moved closer to a unified monetary system but had not gotten quite there yet. Banknote issuance was limited to a few federally chartered banks regulated and supervised by the newly created Office of the Comptroller of the Currency (OCC), but banknote values still diverged somewhat, reflecting the costs and risks of transporting gold and Treasuries across the country. The US payment system relied on correspondent banking, with settlement taking place through physical transfer of specie and Treasuries. Fedwire, a telegraph-operated web of bank accounts at the Fed, replaced the old arrangement with a new one in which settlement occurred in central bank money on the Fed books[4]. From then on, the dollar had exactly the same value everywhere.

Still today, Fedwire guarantees the security and finality of all dollar payments and the "unicity" of the dollar. Nixon's 1971 decision to untie the gold link removed the commodity anchor but did not affect that unicity or the mechanisms through which the Fed, operating on its own balance sheet, implements

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1 We group under a single heading the provisions of two separate executive orders issued on 23 January and 6 March 2025, respectively White House 2025a and 2025b.

2 The following description draws on Angeloni and Gros (2025).

3 US Congress (1913).

4 See Federal Reserve Board (2023).

monetary policy. Technological developments in the last decades (so-called Fintech, including online platforms, smartphone applications, etc.) enhanced the efficiency of retail payments without changing that basic structure or altering the role of the central bank as ultimate guarantor of all payments' finality and settlement.

The system just described may be changed as a result of DAS. A central purpose of it is promoting stablecoins, crypto-assets pegged to the US dollar. Of minor importance today, but growing, stablecoins could be used for everyday transactions, replacing other payment means. Stablecoin values oscillate depending on investor confidence in the solidity and liquidity of the assets backing them. This would bring the US system closer to the pre-Fed situation. Exchanged on blockchains, they are not settled through banks and ultimately the central bank. Therefore, stablecoins do not respond to monetary policy in the way traditional monetary instruments do; the link between payments and central bank money – the successor of gold as a fundamental source of value – may be altered. Both the unicity of the dollar and the US monetary control mechanism may be compromised. These consequences are possible; their actual materialisation depends on regulatory, technological and practical details which are still undetermined.

We discuss these issues in the first part of the paper. Specifically, in section 2 we summarise the two executive orders; in section 3 we discuss the functioning of stablecoins and their regulation; in section 4 we delve into the potential consequences for monetary control and the international role of the dollar.

The second part of the paper deals with the implications for Europe. Concern has been expressed that the possible spreading of stablecoins as means of payment can threaten Europe's "monetary sovereignty". We discuss monetary sovereignty in section 5, suggesting that it depends on a country's power of using its own money (adopting a *numéraire* for pricing and contracts) and the ability of the central bank to regulate its supply and value. Neither of the two is likely to be endangered; however, in section 6, we argue that to ensure this, the euro's legal status and the existing crypto market legislation may need strengthening.

In section 7 we discuss the contribution a digital euro could make in the overall system of euro payments, and specifically in the domains we are discussing. While a digital euro could be useful for some purposes, in particular to improve the structure of wholesale cross-border payments, in the form currently prepared, it would not contribute significantly to protecting Europe's monetary sovereignty.

Finally, section 8 contains some concluding remarks.

2. THE US DIGITAL ASSET STRATEGY

DAS is laid out in two executive orders issued shortly after the new administration's inauguration (White House, 2025a and 2025b, including Factsheets). Details are also found in other statements, for example, a speech given by the President in March at the Digital Assets Summit (Fox Business News, 2025).

White House (2025a) presents the strategy in general terms. Its purpose is "*protecting and promoting*" citizens' ability to access and use digital assets, i.e. those circulating in blockchains, and to conduct activities such as developing software, mining and validating cryptocurrencies, transacting and holding them. A parallel objective is "*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*". Instrumental to these goals is "*providing regulatory clarity*", so as to support "*a vibrant and inclusive digital economy and innovation in digital assets*".

The juxtaposition of monetary sovereignty and stablecoins in this statement is surprising. The global dominance of the dollar as currency for transactions, invoicing and reserve holdings is undisputed.[5] It does not depend on the dollar being a leader in cryptocurrency markets. The US payment infrastructure, at retail and wholesale levels, is also well developed. It can, of course, be improved further, but it is not clear which problem the promotion of stablecoins is intended to solve, nor whether they are the most efficient available solution. Stablecoins are a comparatively minor segment of crypto markets, so far used mainly for transacting in and out of other cryptocurrencies. Unlike Bitcoin and other similar cryptocurrencies, they are pegged to the dollar, hence normally very stable in value. This makes them potentially apt for being used as means of payment (see discussion in the next section).

White House (2025a) also calls for "*taking measures to protect Americans from the risks of Central Bank Digital Currencies (CBDCs), which threaten the stability of the financial system, individual privacy, and the sovereignty of the United States*". The contrast between the potential benefits attributed to blockchain-based digital assets and the alleged risks from CBDCs is another surprising element. The presence of the central bank as a settling agent guarantees finality and gives more certainty to payments, hence a CBDC should be safer than a stablecoin. The view here seems to be the opposite. The order concludes that "*... agencies are hereby prohibited from undertaking any action to establish, issue, or promote CBDCs within the jurisdiction of the United States or abroad*"; a prohibition presumably addressed to the Fed. Whether the order also bans the circulation of other CBDCs (for example, the digital euro) in the territory of the US, or the holding of them by US banks, is not stated. Unclear is also why a CBDC should threaten US sovereignty. If anything, stablecoins represent a higher risk.

The task of drafting a new crypto regulation is entrusted to a President Working Group on Digital Asset Markets composed of cabinet members and directors of government financial agencies (such as the SEC and the CFTC), but excluding the Federal Reserve. The Fed is never mentioned in the two executive orders. This exclusion is unusual since the US central bank is normally included in groupings pertaining to financial market and especially payment system policies. For example, the Fed Chairman is a member, with the Secretary of the Treasury (acting as Chair) and the directors of the SEC and CFTC, of the standing Working Group on Financial Markets created by President Reagan after the 1987 stock market crisis, with the purpose of "*... enhancing the integrity, efficiency, orderliness, and competitiveness of our Nation's financial markets and maintaining investor confidence*". This group,

[5] There is a large literature on the reasons for the dominance of the dollar in the international monetary system. A popular view is that the use of a currency for invoicing is complementary to that as a store of value, which in turn favours the US dollar because of the breadth and efficiency of the US financial system. See, for example, Gopinath and Stein (2018) and references therein.

which produced in 2021 a detailed report on crypto regulation (we return to it in the next section), is not involved this time.

The second executive order (White House, 2025b) pertains to the establishment of a governmental crypto assets reserve. The US government holds significant crypto reserves already, mainly from forfeitures linked to criminal activities. The order entrusts the Department of the Treasury to centralise these reserves into two custodial accounts: a Strategic Bitcoin Reserve exclusively composed of Bitcoins and a United States Digital Asset Stockpile of undefined content – presumably including stablecoins. The latter "*... can serve as a secure account for orderly and strategic management of the United States' other digital asset holdings*". The Treasury is asked to "*... determine strategies for responsible stewardship of the United States Digital Asset Stockpile in accordance with applicable law*".

Figure 1: Bitcoin price

Source: Fred

It is not clear why a country such as the United States needs to hold reserves, and the fact that the US government's holding of foreign exchange reserves is very limited attests to this.[6] While several countries hold reserves, they are usually emerging economies that need them to handle volatile capital flows, or advanced economies such as Switzerland facing a safe-haven demand for their currency and a limited domestic safe bond market. As the issuer of the world's major currency, the United States does not face these concerns and does not have a need for a holding of financial assets by the authorities. While one could debate whether setting up a sovereign wealth fund in the US would be warranted, investment other than crypto currencies would be a better use of the fund. In addition, setting up a stablecoin fund financed by the issuance of government debt, when these stablecoins themselves need to be backed by a liquid dollar asset such as government debt, effectively amounts to the government lending to itself. Such a roundabout investment would serve no purpose.

A declared purpose of the aforementioned Reserve is to bring order to the government's crypto holdings, whose importance has increased as a result of requisitions of illicit holdings. So far, the common practice has been to sell the forfeited Bitcoins. While this makes sense, such reserves at the disposal of the executive open the possibility that they may be used to actively manage the respective markets. The executive order foresees that the Reserve can be increased (in a budget-neutral way); by contrast, the US Digital Asset Stockpile cannot be increased, forfeitures aside, "*... without further executive or legislative action*." The extent to which this constrains the management of this particular reserve is unclear.

The establishment of the Strategic Bitcoin Reserve contributed to a massive Bitcoin's appreciation after the November election (Figure 1). More recently, crypto valuations have fluctuated well above pre-election levels. This pattern raises the risk that a sovereign investment in bitcoin would be a losing proposition. Communications of purchases (sales) are likely to raise (reduce) the dollar value of

[6] At the end of 2024, US official reserves amounted to $ 910 billion, a mere 2.5% of the country's gross external assets ($ 35'886 billion).

cryptocurrencies, leading to a strategy of "buy high and sell low" that would be costly to the government, but profitable for other participants in the market.[7]

3. STABLECOINS: OVERVIEW AND REGULATORY ISSUES

3.1. Features of stablecoins[8]

Stablecoins are crypto assets whose value is managed to remain as close as possible to a reference asset. Most stablecoins are pegged to the US dollar, but the peg can be to another currency, a basket of currencies, or another asset or index. From now on, we will refer mainly to US dollar-pegged stablecoins, though our considerations apply to the whole asset class.

Most stablecoins are "collateralised", meaning that they are backed by a portfolio of cash and securities matching the value of the stablecoins issued against them[9]. Seen in this light, the stablecoin is merely another financial intermediary whose balance sheet comprises money-like means on the liability side and a portfolio of liquid instruments on the asset side.

Stablecoins usually allow for redemption, meaning that the holder can exchange their stablecoins for traditional assets – e.g., bank deposits – at par. To allow redeemability, the backing portfolio must be sellable without loss; for this reason, asset portfolios usually consist of liquid instruments such as cash, bank deposits, short-term Treasury paper, or other forms of high-quality private short-term paper, such as commercial paper (CP) or repos. The more the backing portfolio diverges from these characteristics, the more redeemability is at risk. In fact, even some of the assets just mentioned are not liquid. Treasury bill prices fluctuate and markets can be illiquid. Private issuances such as CP and repos suffer from confidence crises and runs, as happened for example during the financial crisis of 2008-09. Banks may fail, and their deposits are not covered beyond certain levels. For this reason, in order to limit liquidity risk, most stablecoins do not allow unlimited withdrawals or may impose certain frictions, for example limits on timing or amounts of withdrawals. The word "coin" embedded in their name is therefore partly an illusion: their liquidity does not equal that of cash.

Stablecoins are very much like narrow banks.[10] They are similar to banks in the fact that they have largely redeemable and transferable monetary means as liabilities, and in the fact that these liabilities are backed by a diversified portfolio of assets. They are different primarily because they are not (yet) subject to tight prudential standards and the supervision imposed on banks and because they do not benefit from the same safety net.

The fact that stablecoins are backed by holdings of safe and liquid securities may make same look similar to claims on the central bank, as the Federal Reserve issues these claims by purchasing the same securities. One key difference is that the liabilities of the Fed themselves define the unit of account (otherwise called "*numéraire*"), while stablecoin values are measured in that *numéraire*. The other difference, of course, is that the central bank can issue legal tender and is therefore guaranteed not to fail. Relative to central banks, stablecoins include an additional layer of intermediation. While this may not be a cause for concern when stablecoins are backed by safe and liquid dollar securities, the extent of this coverage may be uncertain, leading to a risk of panics.

Stablecoins can be compared to currency boards – monetary arrangements adopted by some countries, for example Bosnia and Herzegovina now with the euro or Argentina with the dollar between

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7 See, for instance, Financial Times (2025). It is also somewhat ironic that supporters of Bitcoin ask for the government's participation in the market when the currency was initially promoted as a way for payments not reliant on public policy.

8 This sub-section and the two following ones draw on Angeloni and Gros (2025).

9 There are also stablecoins whose quest for stability hinges not on reserves, but on algorithms: computerised procedures that exploit market mechanisms to ensure the stability of the price. Examples of this class are, however, relatively rare.

10 A narrow bank is a financial institution that issues demandable liabilities and invests in assets that have little or no nominal interest rate and credit risk. See Pennacchi (2012) .

1991 and 2002. In a currency board, the local currency is pegged to a reference one and the central bank holds sufficient reserves in the reference currency to fully back the local currency. A key requirement of such arrangements is that independent auditors certify that the central bank indeed holds sufficient reserves. To be safe, a stablecoin backed by the dollar needs to be fully backed by liquid dollar securities, and regulation ensures that this is indeed the case – a particularly important requirement as the issuer has an incentive to provide only limited backing. Safe and liquid securities are characterised by a low return, making a fully backed stablecoin a business venture with limited profits. There is then a temptation to invest part of the backing into higher return securities, which are less safe and less liquid. This is a standard mismatch problem that makes the stablecoin vulnerable to self-fulfilling runs, in which holders liquidate it and force the issuer to sell the illiquid assets at a fire sale price. This problem has long been understood and is a core reason why banks and financial intermediaries are supervised. Giving stablecoins a more central role while failing to supervise them as tightly as banks makes the financial system more fragile.

It is also worth pointing out that the decentralisation of currency issuance has an important historical precedent, the provision of dollar currency by private banks during the "free banking" in the United States.[11] That system proved unstable and generated multiple bank failures, as a result of fraud or hazardous management, whereby issuers did not hold sufficient assets to back the currency. Such risks are one of the historical reasons for the creation of central banks, alongside the need for a lender of last resort to respond to financial crises.

Another key difference between stablecoins and claims on banks is in the technology used to hold and exchange them. Stablecoins are not kept and exchanged in a centralised ledger, like those of banks and other intermediaries, but in distributed ones. Payment messages rely on cryptography and are processed in blockchains like those of cryptocurrencies. Stablecoins are run on crypto exchanges, such as for example Ethereum or Binance (or, until November 2022, the ill-fated FTX), which also support trades on cryptocurrencies. The coincidence of trading platforms creates operational complementarity, which makes stablecoins the payment instruments of choice for investors and traders in the crypto world.

It is important to distinguish the technological aspect, consisting of the distributed ledger and the associated blockchain technology, and the financial one, which is the balance sheet structure, and the nature of the instruments stablecoins offer and hold. The second aspect determines the financial risks, that technology cannot eliminate. The technology can add, or possibly remove or alleviate, certain other risks relating to the exchange infrastructure: robustness and finality of payments, transparency, anti-fraud security, and the like.

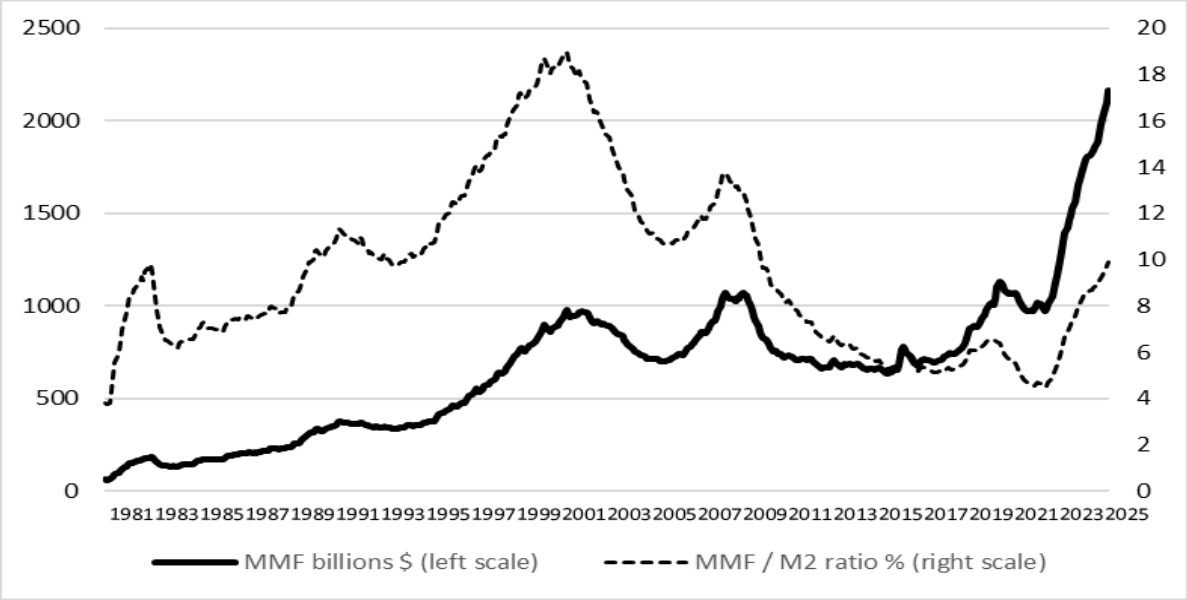
3.2. The need for reliable backing

From a financial standpoint, collateralised stablecoins face a trade-off. The commitment to mirror a conventional currency and the virtual absence of regulation and safety net forces them to maintain very conservative investment policies: only very safe and very liquid assets can be held, lest putting confidence at risk. As pointed out above, safe liquid assets earn low returns, leading to an incentive to invest in assets with higher returns and lower liquidity, ultimately putting the stability of the "coin" at risk. This can also lead issuers to maintain a certain ambiguity in their portfolio composition, facilitated by the lack of disclosure requirements. Lack of transparency increases investor uncertainty. The inherent incentive to assume more risk is the reason why regulation of this asset class is important.

[11] Historians date the US Free Banking period between 1836, date of the demise of the Second Bank of the United States by the "populist" president Andrew Jackson, and the National Banking Act of 1863-64. In that period, banks were state (not federally) chartered and the establishment as well as banknote issuance by banks were relatively free. The period was punctuated by multiple banking crises and large oscillations in banknote values. Both phenomena were much reduced (but not eliminated) in the post-Civil War period.

An example often quoted to portray the financial risk of stablecoins is that of money market funds (MMFs), a new asset class which, created in the 1970s, assumed great importance in the US in the 1990s before declining in importance in the early 2000s and being subject to spectacular failures during the financial crisis of 2008-2009[12]. The history of MMFs is relevant not only because they presented the same "liquidity transformation" risk, but also because it provides a yardstick to assess the potential growth of this "money-like" asset class. In that spirit, Figure 2 reports the stock of MMFs and their share within M2 in the last 45 years.

Figure 2: Retail MMF in the US



Source: Fred.

Stablecoins and MMFs share a similar origin: both arose from the will to challenge banks (including central banks) in their core business, the supply of money. In the 1970s, when MMFs first appeared, banks could not pay interest on deposits. Hence, an opportunity for financial engineering: new instruments could offer the same liquidity as bank deposits and also pay interest, exploiting market returns. Virtually unregulated at the start, MMFs offered redemption at par, combined with a small remuneration. That was sufficient for the new instrument to grow massively until the early 2000s[13]. Subsequently, MMFs suffered major failures during the great financial crisis of 2008-09, as the experience of the Reserve Primary Fund illustrates (Box 1).

After the crisis, MMF regulation was never completed in the US; even at international level, it remains a thorny open issue. The Financial Stability Board has tried to bring the process forward by launching consultations and proposing global standards, with little tangible results. This is a cautionary tale as regards the prospects of stablecoin regulation, the issue to which we now turn.

[12] On similarities and differences between stablecoins and MMFs, see Aldasoro et al (2024a and 2024b).

[13] MMFs have been less successful outside the US, but they still play a significant role in many countries. In Europe, the major hosts of this type of intermediation are France, Luxembourg and Ireland.

Box 1: The rise and failure of the Reserve Primary Fund

The risks faced by this type of balance sheet structure, which MMFs and stablecoins share in common, is exemplified by the experience of the first MMF ever created, the Reserve Primary Fund. Created in 1971, the new fund offered investors cash-like liquidity with a small interest on top, hence outperforming regular bank deposits. The fund's strategy was characterised as "boring": no risk should be accepted. The share's "net asset value" (NAV, the cost of a share) should always be at least equal to 1 US$, the guaranteed redemption value. The fund's portfolio should be super-safe: essentially, the only admissible assets should be remunerated (non-sight) bank deposits and short-dated Treasury paper. The interest earned on their portfolio allowed RPF to remunerate the shares.

After the turn of the century, under pressure from competitors, RPF changed its strategy quietly, entering into the higher-yielding CO and corporate bond segments. In 2008 its portfolio included asset-backed CP and long-term corporate notes and bonds. Initially the new strategy paid off: still on the verge of the crisis (2008), RPF was one of the highest-yielding MMF in the industry. Shortly after, however, RPF "broke the buck": its NAV fell below 1 US$ per share. Redemptions were suspended: investors which had moved earlier in anticipation were able to liquidate their shares at par; those who had waited received far less and much later, pending the outcome of long judicial procedures. This pattern was not isolated but actually quite widespread in the industry: many MMFs suffered outflows and could survive only with support from their sponsors (often banks), which purchased their assets at inflated prices or otherwise shouldered their losses. After the crisis, over 200 cases of MMF support by sponsors were recorded.

3.3. Commonalities and differences with money market funds

As mentioned already, the main risk that stablecoins share with MMFs is that of liquidity transformation: converting a pool of assets, whose liquidity is inherently limited, into money-like liabilities by means of diversification. This implies a promise to investors that their shares (or stablecoins) have cash-like benefits that their assets do not possess. As soon as confidence wanes and redeemability is in doubt, investors have an incentive to "run": liquidate their investment as soon as possible, before others do so. The first who runs is better off because the others are more likely to suffer losses. This is a powerful incentive to run, and it makes the whole construct highly unstable. This dynamic is inherent in the first-come-best-served mechanism: it does not depend on whether the asset pool is fundamentally solvent or not.

Risk from liquidity transformation increases if liabilities yield an interest, because in that case the net return of the balance sheet decreases and the incentive to assume risk rises. The risk becomes systemic if it transmits to other segments of the financial sector via contagion, for example, if the issuer is owned by a non-financial company, or other intermediaries have a formal or informal commitment to act as "sponsors". The latter was the case for many MMFs that failed during the financial crisis. In order to limit these risks, regulators usually try to contain risk-taking on the asset side, to limit the possibility of paying interest, or to prevent other subjects, usually banks, from assuming sponsorship commitments.

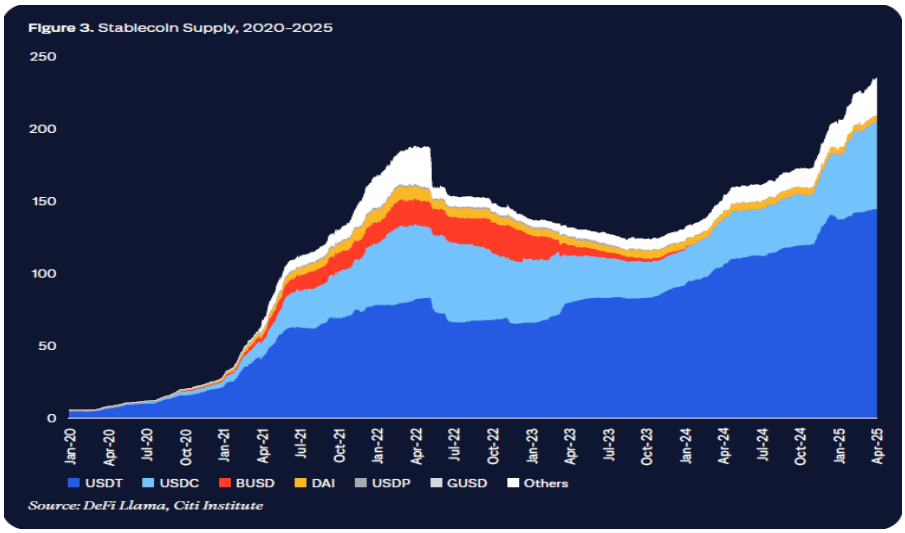
Stablecoins share certain features of MMFs while differing in one important respect. Like MMFs, most stablecoins (including the most important one, Tether) guarantee a stable redemption value to subscribers. They operate on a first-come-first-serve basis: redemptions are executed in the order in which requests are received, therefore guaranteeing better treatment to firstcomers. As we have seen, this feature generates an incentive to "run" as soon as the slightest doubt exists, regardless of the composition of the portfolio – crypto, traditional, or mixed – or whatever mechanism is used to guarantee redeemability – collateralised, algorithmic, or other.

As mentioned, one important feature putting stablecoins apart from MMFs is that shares are exchanged on distributed as opposed to centralised ledgers. This creates a natural complementarity with crypto-

currencies, which makes them the instrument of choice to support cryptocurrency transactions. An investor in Bitcoin who wants to temporarily cash in her gains but be ready immediately for another investment in the crypto-space could of course exchange the Bitcoins for dollars in a bank account via an exchange and then use the dollars on the bank account to buy again. But these 'off-ramp' and 'on-ramp' operations would incur substantial exchange fees and the bank might credit the account only with a delay of 1-2 business days. A stablecoin allows the investor to stay in the crypto-space with an asset whose value is stable and without incurring these costs and the funds would remain quickly available for investment. Stablecoins are thus important facilitators of crypto-investments. Most stablecoins do not have their own ledger. Instead, they piggyback on existing blockchains, often on more than one blockchain at once. For example, the most popular stablecoin, USDT is now available on 9 different protocols. This was made possible by the parent company Tether, which minted coins on all these blockchains (including Bitcoin and Ethereum) and guarantees the value of these coins.

The expansion of stablecoin supply in the last half-decade is shown in Figure 3. Total market capitalisation reached around 230 bn USD in April 2025, from virtually zero five years earlier. The market is very concentrated: Over 60% is represented by Tether, the market leader, and almost 90% by the first two (Tether and USC). One can appreciate three key phases in the recent developments. One is the strong expansion before 2022, i.e. before the Fed started raising interest rates. Specularly, one can see a sharp drop in the early part of 2022, when the central bank started tightening and the Fed funds rate was quickly lifted. However, the outstanding stock never fell close to the earlier levels. Another phase of growth started in the fall of 2023, when the Fed's policy rate stabilised, and accelerated in the fall of 2024, with a sharp rise especially after the November election.

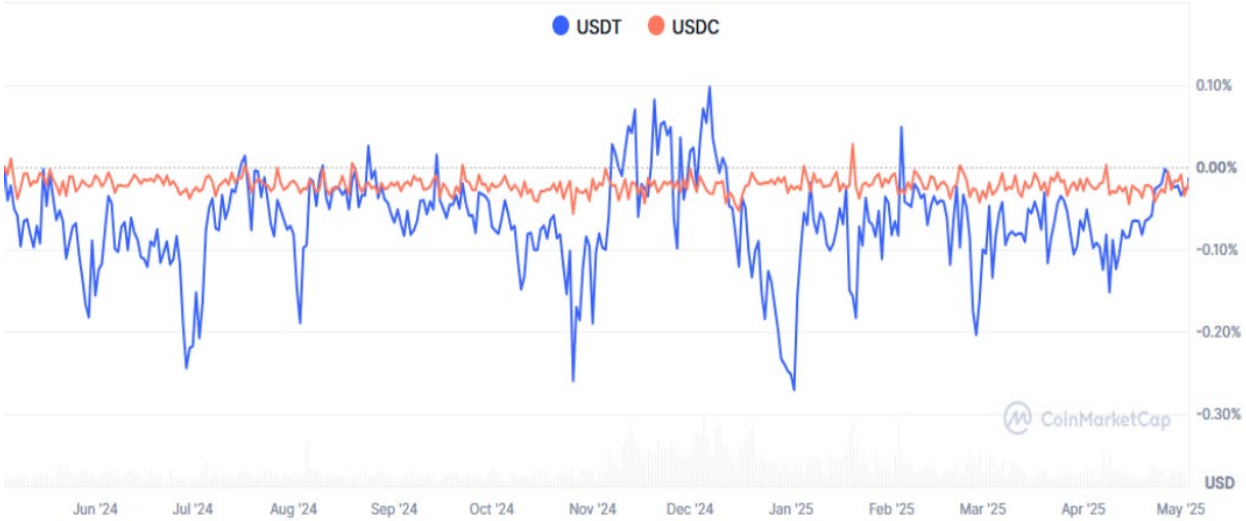
Figure 3: Stablecoins Supply 2020-2025 (billions USD)



Source: Citigroup (2025)

Figure 4 shows daily readings of the price of the two principal stablecoins, USDT and USDC. Prices oscillate relatively tightly around par, as implied by the peg, but the movements are different. Tether's oscillations are larger, between around 0.3% (below par) and 0.1% (above par). By contrast, USDC movements are much smaller, just below parity. These oscillations illustrate the fact that stablecoins lack an essential feature of money: the "unicity" of their value. Unlike money, a unit of which is always equivalent to another unit, a unit of a stablecoin fluctuates in value relative to a unit of another. The fluctuation is normally small, but can become large when crises of confidence occur.

Figure 4: Price of two leading stablecoins (Tether and USD Coin; % deviations from par)



Source: Citigroup (2025)

3.4. Regulation in the United States

As mentioned in the last section, in 2021 the President's Working Group on Financial Markets (PWG), including the Secretary of the Treasury (chair), the chairs of the Fed, the SEC and the CTFT, in association with the chairs of the FDIC and the OCC, issued a Report on Stablecoins which contained recommendations on how to regulate the sector. Quoting from PWG (2021), the recommendations were the following:

- **To address risks to stablecoin users and guard against stablecoin runs**, legislation should require stablecoin issuers to be insured depository institutions.
- **To address concerns about payment system risk**, in addition to the requirements for stablecoin issuers, legislation should require custodial wallet providers to be subject to appropriate federal oversight. Congress should also provide the federal supervisor of a stablecoin issuer with the authority to require any entity that performs activities that are critical to the functioning of the stablecoin arrangement to meet appropriate risk-management standards.
- **To address additional concerns about systemic risk and concentration of economic power**, legislation should require stablecoin issuers to comply with activity restrictions that limit affiliation with commercial entities. Supervisors should have the authority to implement standards to promote interoperability among stablecoins. In addition, Congress may wish to consider other standards for custodial wallet providers, such as limits on affiliation with commercial entities or on use of users' transaction data.

The SEC has so far limited the scope for paying interest on stablecoin, stipulating that if they did, stablecoins should be treated as securities and comply with all related prudential and disclosure requirements.

As of today, the above prudential provisions have not been adopted fully and no comprehensive legislative framework has been adopted for stablecoins. As mentioned, DAS foresees that a framework be drafted by the new President Working Group on Digital Asset Markets (not to be confused with PWG) pursuant to White House (2025a). The prohibition of paying interest, for stablecoins not classified as securities, has recently been confirmed by SEC staff (US Securities and Exchange Commission, 2025) but this presumably will also be re-examined as part of the new legislation.

As we write, the US Congress is examining a draft legislation specific to stablecoins, the so-called GENIUS Act (''Guiding and Establishing National Innovation for U.S. Stablecoins of 2025''; see US Congress, 2025). Put forth prior to the current US Administration as a Republican initiative, this

legislation enjoys at least partial bipartisan support. It is specifically addressed to "payment stablecoins", means of payment whose issuers are obliged to "*... convert, redeem, or repurchase for a fixed amount of monetary value*".

The GENIUS Act stipulates that issuers of payment stablecoin must be specifically authorised. They can be either state chartered (normally, if their size is below 10 bn US$) or federally chartered (above that threshold). The former are regulated and supervised at state level, whereas the latter are supervised by the OCC. Specific provisions restrict the backing portfolio to be composed only of short-term safe assets such as bank deposits, short-dated T-bills or equivalent. The Act explicitly rules that payment stablecoins are not securities, hence are not subject to the strict disclosure requirements imposed on securities by the SEC. In "exigent circumstances", the Fed can impose restrictions on state-chartered payment stablecoins and issue directives regarding them, in order to maintaining financial safety, soundness, and stability.

Whether the provisions regarding state and OCC supervision, complemented by possible intervention by the Fed, are sufficient to ensure proper supervision and oversight of stablecoins as part of the overall payment system, remains to be seen in practice.

If the version of GENIUS Act recently approved by the Senate, which is significantly crypto-friendly, will be approved by the House essentially intact, then that version should probably constitute the core of the forthcoming legislation proposed by the new President Working Group on Digital Asset Markets.

It should be noted that, so far, stablecoins have no sponsors – banks or other financial institutions formally or informally committed to support them. If this remains the case, any problems they might experience are unlikely to spread to the overall financial system. However, since the new legislation promotes the diffusion of stablecoins and their integration within the broader financial sector, this status quo is unlikely to persist (see Wall Street Journal, 2025).

Current projections confirm that this will indeed be the case. Figure 5, taken from Citigroup (2025), shows 5-year projections of the prospective growth of the market for stablecoins, under three scenarios: the first (bear case), in which stablecoins grow alongside the overall crypto market; the second (base case), in which assumes a partial reallocation into stablecoins of international liquid assets in dollars; the third (bull case) which hypothesises a stronger reallocation, including international and domestic holdings of cash and bank deposits. The last scenario is presumably one that would include an expanded use of stablecoins as a means of payment. The numbers are very large in all circumstances. Even in the minimal case, ranging from more doubling (in the minimal case) to an increase of over 15 times (the maximum case).

Figure 5: Estimating Stablecoin Market Size by 2030

Source: Citigroup (2025)

3.5. Regulation in Europe

Contrary to the US, the EU has a crypto legislation already in force, the Market in Crypto Asset Regulation, or MiCA. Passed into law in 2023, MiCA, includes detailed provisions regarding the issuance, custody, administration, redemption and other activities regarding crypto assets, as well as the provision of related services, mainly from the point of view of investor protection.

Here follows a short overview of the contents and articulation of MiCA. We return to it in section 6, where we suggest areas where MiCA could be strengthened in order to offer protection also to Europe's monetary sovereignty, against potential threats represented by the extension of stablecoins and possible increased use as means of payment.

MiCA does not refer to stablecoins explicitly, but in fact devotes most of its attention to them, or in essence, assets circulating in blockchains that are pegged to remain close in value to that of other reference assets. Two categories are singled out for different treatment: Asset Referenced Tokens (ART) and E-Money Tokens (EMTs). Both are pegged to reference assets. While ARTs can be linked to a basket of currencies or other financial instruments, EMTs are pegged to single currencies. These two therefore differ in their potential use as payment instruments, EMTs being more apt to replace or complement conventional payment means expressed in the reference currency.

ARTs are issued by banks or other authorised intermediaries. Their issuance is therefore not limited to deposit-insured credit institutions, as recommended by the US authorities in the previous administration, but only subject to authorisation of the national competent authority. Issuance is subject to strict conditions, including the approval of a "white paper", a sort of prospectus, and of the issuer's professional and business characteristics (sound and prudent management, business continuity, etc.). All these are focused on protecting the interest of the investor, the quality of information provided and the integrity of the market. Notably, a cap is set on the daily value of daily transactions on each instrument, to limit its use as means of exchange. Infringement of the conditions of authorisation by the issuer makes the issuer liable for damage to the investor. ART issuers are subject to own funds requirements and strict provisions regarding the management and the custody of the reserve assets; technical standards on this and other aspects are set by ESMA in cooperation with EBA and ECB, depending on the respective areas of competence. Specific professional soundness requirements are set for providers of crypto-services (Crypto Assets Service Providers, or CASPs).

Importantly, MiCA sets a right of redemption of the referenced token, at market value on request of the investors, under conditions that must be set and publicised by the issuer, and in case the issuer fails to meet its obligations. The latter circumstance triggers a "recovery and redemption" phase, which broadly corresponds to the "recovery and resolution" phase set by the Bank Recovery and Resolution Directive (BRRD) for the banking sector. Interest payment is prohibited. Specific stricter provisions are foreseen for so-called "significant" ART issuers, namely issuers of particular importance due to size, number of investors, international reach or other reasons.

EMT regulation broadly mirrors ART regulation, with some notable differences. The most important aspect regards redemption rights. EMTs are issued at par with the reference currency and holders have a claim on the issuer for the same value. EMTs are redeemed on request at any time, at par and without charging any fee. This guarantees the full liquidity of the instrument, making the EMT essentially equivalent to the reference currency. Specific provisions govern the reserves backing EMTs: at least 30% must be deposited at banks, and the rest should be low-risk instruments, denominated in the same reference currency. CASPs are authorised to provide payment services in compliance with the applicable legislation. Specific requirements are set for CASPs that operate in EMTs and, in particular, on EMTs and ARTs combined.

This brief overview highlights that the EU crypto legislation is very detailed and strict from the point of view of protecting investor interest, ensuring transparency and market integrity, and limiting

idiosyncratic and systemic risk. The downside is that it leaves ample room for crypto assets, especially EMTs, to assume money-like characteristics and be used as payment instruments, for wholesale as well as retail transactions. We will return to this aspect in sections 5 and 6 below.

4. IMPLICATIONS FOR THE US AND THE DOLLAR'S INTERNATIONAL ROLE

A thorough discussion of the implications of DAS for the US financial system goes beyond the scope of this paper. However, some of them are still worth mentioning briefly, because they could be substantial and relevant for Europe. In particular, we refer to two possible consequences, one domestic and one global.

The fact that stablecoins are not settled in central bank money means that a share of the country's means of payment would be subtracted from the traditional transmission chain that emanates from the monetary policy instruments, such as short-term rates, bank liquidity, and the like. With two consequences. First, the guideposts of monetary policy (for example, the various measures of the money stock) would need to be redefined. Second, the monetary policy transmission mechanism may change. How transmission would work is unknown at this point because there is little or no research on how crypto, and stablecoins particularly, react to central bank policy. In principle, effects could go two ways. On the one hand, were stablecoins continue to be virtually unregulated as they are today, their link with monetary policy would presumably be weakened or severed altogether. The consequence would be a decline of monetary control, and more generally, a weakening of the role of the Federal Reserve as policymaker (remember that, according to current plans, crypto regulation is likely to be controlled exclusively by the executive). On the other hand, since stablecoins are pegged to official currency (the dollar), a link with the traditional monetary sector would persist, though it is not clear how it would work. Since stablecoins are not supposed to earn interest, they may behave like narrow banks; in that case, the impact on them of any given change in the monetary policy stance could actually be strengthened.

Aldasoro et al (2024a and 2004b) provide econometric estimates of the reaction of stablecoin demand to various shocks, including monetary policy. Their evidence tends to support the second of the two aforementioned interpretations: the (negative) elasticity with respect to a standard monetary shock is large, in the order of 10% in the long run. This is close to orders of magnitude found for narrow monetary aggregates. It must be emphasised, however, that this evidence is highly preliminary, as it is not (yet) supported by other research and is based on very recent data samples. What we can take at this point is that the reform is likely to increase volatility in the US financial system by adding another source of shocks should stablecoins face runs, and making the transmission of policy less predictable and thus more at risk of being miscalibrated. More recent research by Ahmed and Aldasoro (2025) confirms that the growth of the stablecoin is likely to meaningfully influence the transmission of monetary policy.

On the international side, one may consider the implications relating to the role of the US dollar as an international currency. The dollar currently occupies a dominant position across all dimensions of international financial and trade markets.[14] While this role has decreased along some dimensions, such as its share in foreign exchange reserves, this remains moderate and is not connected to digital assets. Overwhelming research suggests that the dominance of the US dollar on the international monetary scene is well established; potential contenders such as the Japanese yen, British pound, Chinese renminbi, and the euro have acquired some relevance on a regional basis but so far have not dethroned the dollar as the main currency of denomination for invoicing or reserve holdings. Arslanalp et al (2024) and Eichengreen (2023) recently noted a small decline in the dollar share, at the advantage of "unconventional" currencies like the Australian and Canadian dollar.

The same research points that the strength of the dollar relies on long standing institutional characteristics of the US such as the breadth and liquidity of its financial sector, prevalence of the rule of law, and stability-oriented economic policies and institutions, which include the presence of a strong

[14] See, for instance, ECB (2024 and previous editions).

and independent Federal Reserve. The question therefore, is how some recent orientations by the US administration, regarding crypto-markets but not only, may put those traditional strengths in jeopardy, and what the consequences on the international dominance of the dollar would be. As noted above, one consequence of the diffusion of new payment instruments subtracted from the standard control mechanisms may be a decline in the relevance and standing of the Fed.[15] Thus, if anything, the presence of stablecoins limiting the role of the Federal Reserve would go against the objective of anchoring the dollar's role. While any assessment is very speculative at this stage, it is worth noting that an authoritative observer, Ken Rogoff (2024), has recently (but before the November 2024 elections) expressed pessimistic views regarding the future global role of the dollar precisely for those reasons.

One possible source of appeal of US stablecoins to foreign investors is the risk that the US administration can tax foreign holdings of Treasury securities. An anonymous stablecoin backed by Treasury securities would effectively be a channel of indirectly holding these securities. Foreigners exposed to a tax risk may opt for this, but the extent is uncertain as investors would need to be absolutely sure that their anonymity would be preserved, and would forego the interest earnings on the Treasury bonds.

[15] See for instance Eichengreen (2025a,b).

5. PRESERVING EUROPE'S MONETARY SOVEREIGNTY

According to opinions recently expressed both in private and official circles, the growing popularity of stablecoins as a means of payment, also following the digital strategy of the United States, could represent a threat to Europe's monetary autonomy. In the face of that danger, the argument goes, the introduction of a digital euro represents an effective response to protect Europe's "monetary sovereignty".[16]

This can indeed become a serious issue. Currency and central banking are key areas delegated to Europe by the member states, arguably the most critical and visible of all. Nothing more than the euro signals the notion that Europe exists and functions as a single polity. Should this come under threat by the spreading of dollar-based stablecoins or by the digitalisation of money in general, the risk to Europe could be existential. Maximum attention must be paid to fending this risk off.

The response should be rational and well thought out. Three steps are needed. First, we need to understand what is really at risk, why, and by how much. Secondly, whether the digital euro, as currently envisaged, represents an effective defence. Thirdly, if it does not, what alternative or possibly complementary actions offer a better prospect? We approach the first question in this section; the other two (in inverse order) are examined in the next two sections.

Understanding the risks involved is complicated by the fact that the notion of "monetary sovereignty" is not obvious nor necessarily equally understood by all. The reader would search in vain for titles mentioning "monetary sovereignty" in the main economics reading lists, such as for example the NBER working papers series.[17] An authoritative and recent exception is Obstfeld et al. (2024), who provide a formal definition of monetary sovereignty and econometric measures of its extent under different monetary regimes over the last century. According to them, monetary sovereignty resides in the ability of the state (or the central bank delegated by the state) of using monetary instruments "*... to engage in active macroeconomic management over the business cycle ...* (in the) *... belief that, due to short-run nominal rigidities, such intervention might be effective".* In conclusion, "*... the defining role of a sovereign monetary authority is that it will exercise such powers, when feasible and desirable, and this will affect liquidity, and hence interest rates, at the short end of the market*". (Obstfeld et al., 2024, page 1).

Monetary sovereignty therefore exists on two conditions: that the state is in a position to enforce its own money as *numéraire* for pricing and contract denomination; and that it (or the central bank) can manage its value (interest rates, exchange rate, purchasing power) by using monetary policy instruments. Conversely, loss of monetary sovereignty occurs, for example, when a country adopts another country's money (a situation often referred to as "dollarisation" even if the currency involved is not the dollar, because that is the currency most frequently adopted abroad) or when monetary policy instruments become ineffective. Dollarisation happens in countries faced with high or volatile inflation, i.e. in cases where the domestic numeraire is a poor store of value. One example of instrument ineffectiveness, to which we will return, occurs when private money starts replacing public or central bank money, hence making monetary control more difficult or less effective even without change in the *numéraire*.[18]

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16 Lane (2025); Cipollone (2025); Bloomberg (2025).

17 The term is more frequent in the legal and political literatures, see for example Zimmerman (2013), Murau and Klooster (2022) and Martino (2023). Murau and Klooster (2022) define monetary sovereignty as "*... the state's ability to use its tools for monetary governance to achieve its economic policy objectives*", a definition similar to that of Obstfeld et al. (2024).

18 Obstfeld et al. (2024) consider loss of monetary sovereignty also a situation in which the country pegs the exchange rate or adheres to a gold standard, as it happened in part during the interwar and postwar periods. This situation is not relevant for our discussion. It is even debatable that this represents a real loss of sovereignty, since the adoption of an exchange rate regime is a sovereign political decision.

Let's start with the first question: may a potential global spreading or stablecoins give rise to, or increase the chance of, "dollarisation" in the euro area – meaning, literally, that euro area residents start using the dollar instead of the euro for everyday transactions?

We strongly doubt it.

Overwhelming economic and historical research confirms that the main driver and incentive for using a different currency reside in the desire to adopt a different *numéraire*, not in the prospect of using a new payment technique. Two main advantages of adopting a foreign currency have been identified (for example see Alesina and Barro, 2001, and references therein): fostering trade by joining a trade-integrated currency area; and importing monetary policy credibility so as to maintain price stability at lower cost when inflation in the local currency is high or volatile. Neither of these motivations justifies using the dollar in the euro area; in fact, both of them conclusively explain why Europe decided to adopt the euro a quarter-century ago. That said, experiences suggest that the use of the domestic currency is usually supported by legal provisions, to underpin the currency's "legal tender status" by making its acceptance mandatory at least in some forms.[19] Today, the euro's legal tender status is implied from the Treaty and confirmed by a subsequent Commission Recommendation (referred to in European Commission, 2023), but its meaning and enforcement mechanisms are not legally well-established. In section 6 we argue that it should. Note that while the use of a digital dollar in the euro area is unlikely, it is more of a concern in emerging economies, while confidence in the currency could remain relatively limited, even though many emerging central banks have achieved very clear progress in adopting a sound framework for the conduct of monetary policy.[20]

A different question is whether a potential increasing popularity of stablecoins as part of the euro-denominated payment system, without change of *numéraire,* may lead to an erosion of monetary sovereignty by producing a shift from "public money" (banknotes, coins and close substitutes) to euro-denominated forms of "private monies" which, being settled on distributed rather than centralized ledgers, are less amenable to monetary control.

We should first note that this particular risk, while potentially real, is not imminent. The total market capitalisation of euro-denominated stablecoins today is below 50 million euros and falling. This compares to over 220 billion US dollars, and rising, for dollar-covered stablecoins. At the moment, euro-denominated stablecoins are irrelevant and there is no sign that this situation may change soon. Still, the issue is worth thinking about because financial innovation can move fast.

There is little analysis, let alone evidence, on how the monetary policy implementation and transmission would work in a world in which stablecoins replace traditional payment instruments such as bank deposits and other money-like instruments.[21] Such a replacement would tend to subtract funding to banks, leading to bank disintermediation. The process would presumably be both structural – a fraction of bank intermediation being lost on a permanent basis – and cyclical – bank funding becoming more reactive to monetary and financial conditions, as a result of cyclical shifts of funds in and out of the banking sector. The extent of those shifts is hard to judge a priori. The aforementioned estimates of Aldasoro et al (2024a and 2024b) suggest that the (negative) response of stablecoins to a standard monetary policy shock may be quite large, especially if stablecoins are restricted from paying interest. To the extent that monetary policy shocks can alter the confidence in stablecoins, for instance through concerns of limited backing as discussed above, the impact could also be uncertain.

In addition to displacement of bank intermediation, shifts in and out of stablecoins may also result in erratic movements in the demand for central bank liquidity. However, as correctly noted by ECB (2020), "*... the substitution of banknotes and central bank money with stablecoins at a degree envisaged in*

[19] According to the IMF, legal tender provisions are an integral part of monetary sovereignty; see Gianviti (2008).

[20] For an analysis of the impact of CBDC in an open economy, see Ferrari Minesso, Mehl and Stracca (2022).

[21] One reference is ECB (2020).

the second scenario could reduce the demand for ECB liquidity but would not necessarily constrain the ability to steer short-term money market rates, as stablecoin reserves would likely be invested in euro-denominated assets, which would respond to changes in key policy rates."

Both the impact on bank intermediation (structural and cyclical) and that on money markets would depend on how stablecoins are collateralised, hence ultimately on how they are regulated. Strict regulation, ensuring both financial stability and a clear and transparent distinction between "public money" (settled and overseen by the central bank) and "private money" (circulating on alternative channels such as distributed ledgers) would contribute to making any spreading of stablecoin use, as means of payment or for other uses, less disruptive from the viewpoint of monetary control. Section 6 contains suggestions on how European crypto regulation could be adjusted to this effect.

While we do not see a risk of loss of sovereignty, shocks emanating from the United States and transmitting to Europe, and globally, could become more prominent. As pointed out above, this can be due to the possibility of volatile demand for stablecoins and a less precise transmission of policy by the Federal Reserve. Europe may thus be faced by more spillovers from the US, including through financial linkages from cross-border activities by financial institutions.

6. PROTECTING EUROPEAN INTEREST

In the previous section, we argued that the risks of euro area "dollarisation" with ensuing loss of monetary sovereignty by Europe is very low. Nonetheless, such risk may be reduced further by a few specific changes in European regulation. We suggest changes in two areas: legal tender and crypto-market regulation. The spirit of these suggestions is twofold: fully clarifying the meaning and implications of the legal tender status granted to euro banknotes and coins; establishing clear legal and operational distinctions between legal tender instruments, and close substitutes of them, and other privately issued instruments which may on a voluntary basis be used to enact payments. The scope of these proposed changes is to avoid confusion in case the two classes of instruments may be regarded as equivalent.

We deal with the two types of proposals in the following two sub-sections.

6.1. Legal Tender

Article 128 TFEU stipulates that the ECB has the exclusive right to authorise the issuance of euro banknotes, and that such banknotes are the only ones that are legal tender in the Union.[22]

The meaning of legal tender is elaborated in an EU Commission Recommendation dated 2010 (EU Commission, 2010). Besides its lower legal rank, the wording of this recommendation is unclear on both the meaning and the implications of legal status. Paragraph 2 reads: "*The acceptance of euro banknotes and coins as means of payments in retail transactions should be the rule. A refusal thereof should be possible only if grounded on reasons related to the 'good faith principle' (for example the retailer has no change available).*" Expressions like "should be the rule", "good faith principle", and "for example" leave room for flexibility on how the acceptance obligation is interpreted and applied in practice.

In 2023, the Commission proposed a Regulation aimed at enshrining the notion of euro legal tender in secondary legislation (European Commission, 2023). As explained in the preamble, the Regulation clarifies that legal tender implies: mandatory acceptance, at full face value, with the effect of discharging payment obligations. No other payment instrument enjoys these privileges. The Regulation is still pending. It is intended to complement a separate Regulation establishing the digital euro (the digital euro is supposed to complement cash, not replace it).

The proposed legal tender Regulation is comprehensive and detailed. Importantly, it requires Member States to monitor compliance with the legal tender status in their jurisdiction. Quoting from the explanatory section: "*Member States would have the obligation to monitor the level of ex ante unilateral exclusions of payments in cash and to ensure the acceptance of cash fulfilling the principle of mandatory acceptance of cash as outlined in Article 4. Member States would need to report annually their assessment to the Commission and the European Central Bank. If cash non-acceptance levels are deemed to undermine the mandatory acceptance of euro banknotes and coins, Member States would need to take remedial measures*."

We have no specific suggestions here except that the entry into force of this regulation should in our view regarded as a priority, also as a response to the US crypto strategy Clarifying the meaning of legal tender status is useful regardless of whether the digital euro comes to being or not (the two regulations are often considered linked).

[22] Regulation EC/974/98 in art 11 equivalently establishes the legal tender status of euro coins; see here.

6.2. Crypto-Markets and the relation with public money

As explained in section 3.3, the EU Regulation on crypto-markets (MiCA), very detailed and comprehensive, is predominantly focused on protecting the rights of crypto investors. Not only does that Regulation not draw a sharp distinction between crypto (EMTs specifically) and traditional instruments as payment means, but on the contrary: in order to protect investors it imposes convertibility requirements on Crypto Assets Service Providers (CASPs) that actually in the direction of blurring that distinction.

Researchers at the Federal Reserve Bank of New York have recently studied the consequences of the increasing use of stablecoins for payments on the overall integrity of payment systems. They noted that, while new blockchain-based payment technologies become more and more widespread, there is a concern as to whether "interoperability" among those systems and between those systems and traditional ones can be established while at the same time guaranteeing the "singleness" of money (Durfee et al. 2025a). They define "singleness" of money as the need to ensure that "... *payments and exchange are not subject to volatility in the value of the money itself*." In other words, ensuring that the "Law of One Price" (LOOP) holds at all times among monetary instruments (i.e. used as means of payment). "Interoperability" means "... *ability for users belonging to one system to exchange information and value with those belonging to another system*". In practical terms, interoperability requires users to be able to move seamlessly from one system to the other, exchanging information and values (at par) between them.

According to Durfee et al (2025a), interoperability builds on three "pillars": legal, technical and economic. The legal pillar consists in ensuring that the rules of interoperable systems are consistent, possibly identical. Legal tender status and convertibility at par with legal tender instruments is part of this requirement. The technical pillar includes a number of operational conditions, in particular "... *data standardization, common clearing/settlement protocols, and synchronized communication between systems*". The economic pillar consists of the existence of economic incentives that induce users to actually operate across systems, hence making use of the interoperability channels.

The question we focus on here is, what degree of interoperability should be allowed to exist between the class of stablecoins and traditional payment systems settled on bank and central bank balance sheets, while ensuring LOOP is assured?

As noted in section 2, and confirmed by Durfee et al. (2025b), LOOP does not hold within the stablecoin space itself. Stablecoin prices oscillate with one another depending on a variety of factors, including their own risk characteristics. In addition, stablecoins could be subject to runs by holders. A tight connection between instruments such as stablecoins and the traditional payment system raises then the risk of transmitting instability from the former to the latter. In order to safeguard the singleness of money, which must prevail in the traditional payment space, appropriate legal, technical and economic boundaries must be established between the crypto space (and more generally, financial market segments that have certain money-like characteristics) and the traditional payment space.

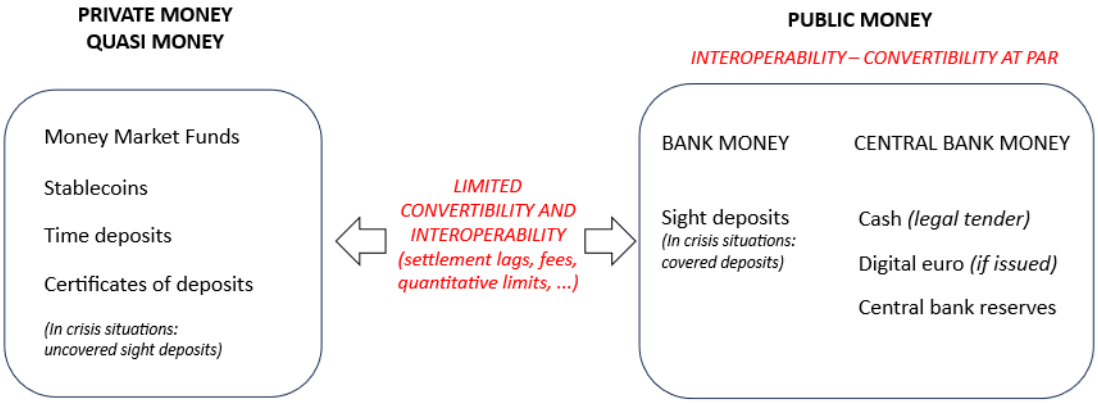
Figure 6 sketches the way in which such a distinction could be made. "Public money" includes instruments with legal tender status (cash and digital euro, if issued), instruments with limitless and immediate convertibility with them (central bank reserves held by depository institutions), and sight deposits at insured credit institutions. Those instruments would be exchanged through interoperable systems, legally, technically and economically. A distinction may arise here between normal and crisis situations; if the bank fails, only covered deposits would be ensured full and immediate convertibility (as indicated in the figure).

Interoperability would not hold between the two systems – private money vs private money and quasi-money. Here we follow Martino (2023): "... *it should not be possible to grant them* (i.e. stablecoins) *withdrawal rights at all times according to mechanisms that effectively mimic redemption at par in*

good times. Moreover, and perhaps more importantly, they should not be able to benefit from bankruptcy benefits allowing them to provide safety and liquidity in times of crisis. In other words, stablecoins can be means of payment if parties wish so, but they cannot become a reliable alternative to store value." (page 30).

Limits to interoperability between the two systems can take several forms. Legal provisions could, for example, provide for settlement lags or limits to convertibility per unit of time. Economic incentives could consist of transfer fees, fixed or related to transferred amounts. Technical constraints would spontaneously arise in the case of stablecoins from the fact that settlement systems would differ, one being based on distributed and the other on centralised ledgers.

Figure 6: Public and private money



Source: Authors' elaboration

To sum up, we suggest that MiCA should be amended to reduce the convertibility and interoperability between traditional and crypto-circuits. At present, these two circuits are closely connected; in particular, MiCA requires CASPs to guarantee convertibility at par at any time and without any fees between EMTs and the traditional monetary circuits (article 49). Limits are instead needed to ensure a proper balance between the objective of safeguarding investor interest and the need to protect monetary sovereignty and the "law of one price" of payment instruments, both of which may come under threat if euro-denominated stablecoins take hold as means of payment. While such a threat is at the moment remote, regulation should not ignore its potential existence in a distant future.[23]

[23] A frequently aired objection to such proposal is that imposing limits on the connectivity between the traditional and crypto circuits conflicts with the goal of fostering innovation and competitiveness in the digital payments landscape. One of us has considered this argument in a recent op ed in the Financial Times – Angeloni (2025). The point is that open and competitive markets must be pursued to the maximum extent possible but without interfering with vital concerns in areas such as monetary sovereignty and financial stability.

7. BENEFIT FROM CBDCS AND THE ROLE OF THE DIGITAL EURO

While our discussion focuses on the potential role of stablecoins as payment instruments, there is an active effort in understanding whether the implementation of CBDC would bring an improvement in the payment environment. In particular, it has been suggested (Lane, 2025) that the introduction of a digital euro would help protect Europe's monetary sovereignty against the threats posed by the US digital strategy and the ensuing increased use of stablecoins and other private digital instruments.

As going through the several angles of this discussion would bring us beyond the scope of this paper, we focus on a few elements.

While most current research and preparations for the introduction of CBDCs (notably, in the euro area and in China) concentrate on retail payments, involving households and firms, it is not clear that this is where they are most needed. In advanced economies, retail payment systems are well developed and have brought improvements in recent years through the use of cell-phone or contactless payments, for instance. Progress has also been made on payments within the existing banking environment. One example – among many – of such improvements is the possibility to get instant settlement for payments between bank accounts, which is now available from banks in Switzerland. This is but one example of technical progress from Fintech on payment systems that do not require setting up a new digital currency. As pointed by Jordan (2024a): "From a Swiss perspective, the risks of retail CBDC currently outweigh its potential benefits".[24]

The pattern is different for wholesale payments, both within a country and across borders. Cross-border payments are an area with room for improved efficiency of payments, in part due to banks reducing their involvement in the standard correspondent banking system. The Innovation Hub of the Bank of International Settlements provides a coordination platform for several projects. The distributed ledger technology offers opportunities for more efficient settlements with the use of token assets and the settlement of the transaction directly in a central bank currency.

The feasibility of using a wholesale CBDC as a settlement currency for such assets has been established, for instance, through pilots developed by the Swiss National Bank, the BIS innovation hub, and various partners. (Jordan, 2024b; Müller, 2022). Project Helvetia, undertaken by the SNB and the SIX payment infrastructure, developed the settlements of tokenised securities first through a real-time settlement system, and then through a wholesale CBDC allowing for the implementation of smart contracts. The use of central bank money in the form of CBDC allows the payment to be handled on the same third-party platform as the trading, instead of relying on communication between different infrastructures for payments and transactions. This reduces liquidity risk and anchors the role of central banks in the digital trading of financial assets. Project Jura, undertaken by the SNB and the Banque de France, along with several Swiss and French financial institutions, expanded the coverage to cross-border payments. It allows settling in Swiss franc and Euro wholesale CBDC, giving institutions resident in one country access to the CBDC of the other. The scope of running cross-border transactions in a digital form continues to be broadened. For instance, project Agora (BIS, 2024) involves seven central banks and more than 40 private financial firms regulated and involved in international payments, and explores how tokenisation can be used to improve international payments.

By contrast, we think that the contribution that the digital euro could make in protecting Europe's monetary sovereignty is limited, at most. As currently planned, the digital euro would be a retail payment instrument issued by the ECB in small amounts, placed at the disposal of all citizens in competition with other instruments such as cash, point of sales, other devices like cards, smartphone

[24] One dimension where the provision of retail CBDC could be of help is financial inclusion, by offering a digital payment to people who do not have bank accounts. There are however other approaches one could follow, such as a public mandate for banks to offer basic payment accounts, or digital payments applications on mobile phones (which have been adopted in several emerging economies). It is not clear that the provision of a retail CBDC would be more efficient than these alternatives.

apps, online platforms, etc. As mentioned, the first key condition for monetary sovereignty to be ensured is that the euro continues to be used, or in other words, that no currency substitution towards the dollar occurs in the euro area. The euro's legal tender status is key to this purpose. The second condition is that euro-backed stablecoins, now virtually non-existent, do not get traction to the point of being preferred to current payment means. Crypto regulation is critical here. A digital euro, an instrument limited in scope and size and whose commercial success is uncertain[25], is unlikely to help.

[25] As stated by Landau and Nicole (2024), 'Central Banks have very little comparative advantage in managing retail payments and client relationships. This objective may be best achieved through proper regulation and incentives aimed at the private sector. All in all, the "business case" for a CBDC seems rather weak'.

8. CONCLUSION

In this paper, we discuss the potential implications of the Digital Asset Strategy (DAS) recently announced by the US, and reach some conclusions on its possible consequences for the US and Europe.

In particular, we find that:

1. DAS is an important policy initiative which, if pursued consistently for several years, would have far-reaching consequences for the US and global monetary systems;
2. If the promotion of dollar-backed stablecoins, a centrepiece of DAS, results in widespread use of stablecoins as payment instruments, the "unicity" of the dollar as unit of account would be jeopardised and the role of the Federal Reserve and the effectiveness of its monetary policy instruments would be weakened;
3. Since the strength and independence of the Fed are central factors supporting the dollar's dominance in the international payment system, a diminished influence of the central bank may also weaken the dollar's international role;
4. A spreading of dollar-backed stablecoins in itself would not pose a significant threat to Europe's monetary sovereignty, assuming the euro continues to be used. In other words, the euro area does not "dollarize" – and euro-backed stablecoins do not replace traditional payment instruments in the euro area. We argue that in order to guarantee this, the legal status of the euro and the EU crypto regulation (MiCA) need to be strengthened.
5. While we think that a wholesale CBDC could significantly improve the functioning of the international payment system, we are sceptical about the usefulness of the retail version of a digital euro as a line of defence against possible adverse implications of DAS and a way to protect Europe's monetary sovereignty.

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We discuss the possible effects of the US administration's Digital Assets Strategy (DAS), on the US and Europe. If pursued consistently over time, DAS would tend to weaken the Fed's payments oversight and monetary control mechanisms, with possible adverse consequences including for the dollar's international role. Europe's monetary sovereignty is unlikely to be affected. To ensure that it is indeed the case, the EU crypto markets regulation (MiCA) and the euro's legal tender status may need strengthening. While wholesale CBDCs would benefit the cross-border payment infrastructure, the digital euro in itself would not contribute significantly to protecting Europe's monetary sovereignty.

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