

Stablecoins: what strategic choices for Europe?

1. Defining Europe's strategic vision for stablecoins within tokenised finance

The Chair introduced the panel, observing that stablecoins are increasingly attracting the attention of market participants, supervisors and policymakers.

1.1 A strategic vision for full financial market tokenisation

A public representative discussed the potential role of stablecoins within a broader strategy of tokenising traditional financial instruments and processes on the blockchain. It is important not to focus too much on what other jurisdictions are doing. The EU has a completely different set of constraints from the US. The EU's strategic objective should be far more ambitious: the full tokenisation of financial markets. This necessarily involves bringing both the securities and cash sides of any financial transaction on-chain.

The task is daunting. The legal underpinning must be prepared; DG FISMA is beginning this process by proposing legislation. Ultimately, it is for the market to determine whether the benefits outweigh the transition costs and to decide which markets should go fully on-chain. Policymakers must give the markets the opportunity to make these choices.

1.2 Ensuring an efficient and resilient tokenised financial ecosystem

A public representative stated that the markets should have access to a broad range of settlement assets. A wholesale central bank digital currency (CBDC) is critical for certain types of transactions. Other options include tokenised deposits and different forms of stablecoins. In a multilayered system, the market should be able to determine which settlement asset is best suited to each layer or use case. However, if stablecoins are to perform the role of a key settlement asset in a tokenised financial world, the Markets in Crypto-Assets Regulation (MiCA) will not suffice. The EU will need to consider the issue of access to central bank liquidity.

International interoperability must be maintained. Solutions in different jurisdictions do not have to be identical, but they must be compatible with each other. Within the EU, this strategy could be the ultimate solution to financial fragmentation. Stablecoins are part of the solution, but they should not be the only alternative offered to markets.

Building on this strategic vision, the discussion then turned to Europe's capacity to translate these ambitions into concrete economic and technological development.

2. Building European capacity: growth, innovation and strategic autonomy

2.1 Strengthening Europe's strategic autonomy through competitive stablecoin development

An industry representative suggested that, to maintain strategic autonomy, Europe needs to embrace change while also generating technical neutrality. Currently, it is too early to define the potential risks of stablecoins and excessive focus on risks at this stage may hinder innovation. While the digital euro is one part of the solution for Europe, it is not related to the capabilities of stablecoins with regard to smart money, global transfer and value. The digital euro should be recognised as a distinct objective within a broader combination of efforts.

Since the introduction of MiCA, the number of stablecoins in Europe has not increased significantly. It is counterproductive to make it more difficult for global stablecoins to operate in Europe while failing to create the conditions for European stablecoins to succeed both domestically and internationally. Europe's loss of sovereignty over the past decade has been driven less by a lack of European coordination than by global competitive pressures. With technology and AI increasingly dominated by US players, and continued reliance on US providers in payments, the development of globally relevant European solutions has become critical. Digital sovereignty ultimately depends not only on public initiatives but on the ability of European firms to compete globally.

2.2 Driving growth and sovereignty through stablecoins and blockchain

An industry representative explained that stablecoins and blockchain technology are important for Europe because they address the issues highlighted in the Draghi report, namely productivity and sovereignty. Over the last 20 years, productivity gains generated by tech companies have been more integrated in the US than in Europe. Over the next 20 years, blockchain will be the major technological revolution in the financial industry, and stablecoins will be key for payments and settlements. In order to generate future growth, this technology needs to be developed not only in the crypto industry, but also in traditional finance, including banks and market institutions.

The second requirement is strategic autonomy. If tomorrow's GAFA are not European, Europe will face the same problem in the blockchain space as it currently does in the payments industry with the Visa-Mastercard duopoly. Euro-denominated stablecoins are needed, as are stablecoins issued by European companies, including banks and issuers.

Financial institutions must shift from a risk-based to an opportunity-based approach. Collectively, Europe needs to develop a strategic roadmap that highlights the importance of developing blockchain technology in the financial and payments industries. Stablecoins are one element of this new approach. Europe already benefits from a strong regulatory framework, particularly in terms of anti-money laundering (AML) and risk mitigation. MiCA-regulated stablecoins are significantly safer than earlier market developments and are increasingly setting an international standard. The priority should now shift towards fostering business development in Europe, with the public sector supporting financial institutions.

2.3 Structuring a future monetary system based on tokenised money

An industry representative stated that three types of assets are likely to coexist in the future payments and monetary landscape. Wholesale CBDCs will be used for wholesale and interbank payments, as banks are unlikely to settle transactions using riskier assets. Stablecoins are well suited to most other existing use cases of commercial bank money. While there is still a role for tokenised deposits, so far they have primarily served to modernise banks' internal infrastructure. Stablecoins are expected to play an important role across a wide range of use cases. Although they are currently used predominantly for crypto trading, in future they could support applications such as corporate payments, intra-group liquidity management, cash management, retail and cross-border payments, as well as the settlement of smaller financial transactions. Tokenised deposits may continue to play a role in more specific use cases alongside stablecoins.

An industry representative agreed that sovereignty is the main aim of all these initiatives. It is crucial not to fall behind in terms of technology and to address the challenges that are currently being tackled with the digital euro. While it is important to consider technological possibilities, MiCA is already a robust framework. It should be enhanced and promoted on the global stage as a regulatory framework that can work in other jurisdictions. Europe needs to find a collective approach to stablecoins that takes into account competitiveness and avoids over-regulation.

The Chair noted that industry representatives share the concerns about sovereignty and strategic autonomy that are often discussed among policymakers, but their response is to proactively compete in this space rather than to adopt a defensive approach.

2.4 Overcoming legacy constraints to unlock innovation in digital finance

An official suggested that, rather than embracing digitalised money and crypto assets, Europe should focus on innovation and efficiency. A two-tier monetary system is preferable to modern monetary theory in which politicians decide the level of inflation.

Europe risks failing to understand quickly enough the opportunities and disruption that digital forms of money could create. Europe is a prisoner of the legacy it has

created through the successful establishment of an efficient banking system in which central banks play a key role. The US lagged behind in this respect, which might explain why Europe is now slower to adapt.

In order to foster innovation, it is crucial to focus on opportunities. The better the understanding of the technology, the better the understanding of the risks will be. Good regulations are already in place; what is needed is an understanding of how everything functions. It is important to allow the ecosystem to develop the full range of available tools. Central bank money is needed for settlements. Stablecoins must be allowed to develop. It is important not to be too controlling. This is crucial for financial sovereignty, the capital markets union and the euro's international role.

Against this backdrop, panellists emphasised the importance of designing an appropriate regulatory and policy framework.

3. Designing a balanced regulatory and policy framework

3.1 A facilitative and adaptive UK approach to stablecoin regulation

A Central Bank official stated that the stablecoin market has changed markedly. Major jurisdictions are close to deciding on their regulatory approach, and the market is responding to this. Policymakers need to think carefully when using their powers. Whether they act defensively or more supportively, their actions will shape the industry. In the US, new onshore dollar stablecoins are being issued in anticipation of forthcoming regulations. It is important that policymakers recognise that they cannot predict exactly how the market will develop.

3.1.1 Building a 'Multi-Moneyverse' with interoperable forms of money

A Central Bank official outlined the UK's more facilitative approach. The UK's national payments vision is to develop a system that can handle the full range of future payment use cases. The goal is to create a 'multi-moneyverse', where various forms of money can coexist and be freely exchanged. This requires supporting infrastructure and a policy framework to ensure interoperability while maintaining financial stability. Systemic stablecoins should operate on an equal footing with other regulated forms of money.

The UK's proposed regulatory regime has a number of characteristics, including the requirement that the cash-backing asset is held at the central bank as a liquidity buffer, ensuring that issuers have sufficient cash to meet redemptions without monetising non-cash-backing assets. Allowing systemic stablecoin issuers to bank directly at the Central Bank, rather than at commercial banks, puts systemic stablecoins on the same level as commercial banks in the monetary hierarchy. In the wholesale sector, while the markets are best served by risk-free settlement assets, the UK is also looking to determine how on-chain central bank money can be made available.

3.1.2 Ensuring financial stability while supporting innovation

A Central Bank official highlighted both the importance of developing robust infrastructure and learning through experimentation, as well as the need to strengthen regulatory standards to support the emergence of next-generation stablecoins.

The Bank of England is collaborating with industry partners that are developing new digital payment systems that can integrate with the RT2 settlement infrastructure. This means that, in future, stablecoins regulated to higher standards can play an important role in the system alongside tokenised commercial bank money. While some evidence suggests which types of stablecoin are the preferred cross-border option, there are many other use cases. Providing options safely gives the market the opportunity to solve problems and gives customers and individuals the chance to make choices.

This approach also entails risks. To better understand these risks, the Bank of England is using its Digital Securities Sandbox to conduct live tokenised transactions. This experimental approach enables policymakers to evaluate the practical functioning of these instruments, including the requirement for both legs of a transaction to be on-chain. This reflects a broader effort to learn through experimentation and to calibrate regulation based on real-world evidence.

The first priority should be financial stability, followed by innovation. It is important to strike the right balance, setting standards that are comparable to those in existing regimes and applying them to new technology. Not only do dollar-denominated stablecoins have a use case, but many markets in the EU and the UK are also anchored in different currencies.

While there are risks if 'know your customer' (KYC) processes are not included in regulation, technological advances have enabled the development of tools that allow for greater traceability. Any standards applied to regulated stablecoins must be a prerequisite for their operation within European economies.

Embracing stablecoins cannot mean turning a blind eye to regulation. Currently, MiCA and some state regulation in the US are exceptions, but this will change by the end of the year. Second-generation, regulated stablecoins will offer significant advantages in terms of the value of programmable money and online shopping, as well as eliminating late payments for SMEs. While these functions can be achieved through tokenised deposits, it is crucial that they are carried out safely.

3.2 Prioritising financial stability in the regulation of stablecoins

An official expressed the view that, given the circumstances in which MiCA was discussed and adopted, achieving a balance between managing risks and exploiting opportunities was not possible, as stablecoins did not fall under any of the existing sectoral rules. The market for stablecoins was since then dollar-dominated, raising concerns relating to monetary sovereignty. Furthermore, stablecoins are intended to serve as a means of payment and a settlement asset, offering the

promise of stability. This promise raises concerns relating to monetary policy. Finally, in the event of a stablecoin run, stablecoins could potentially act as a risk transmission channel between the on-chain and off-chain worlds, raising concerns relating to financial stability. Priority had to be given to managing these risks.

Post-MiCA discourse has shown that the main safeguard for stablecoins retaining a subsidiary role in the two-tier monetary structure is non-access to settlement against central bank money. However, if the prohibition of interest is merely a regulatory legacy of the Electronic Money Directive, it could potentially be reconsidered to enhance the competitiveness of EU-issued stablecoins.

Supporting the two-tier system does not imply inferior functionality or usefulness. Euro-denominated stablecoins represent euro-denominated assets, collateral and reserves, thereby strengthening the euro. They are settlement assets that fulfil a role within a specific context.

3.3 Balancing innovation, financial stability and strategic autonomy in tokenised finance

A Central Bank official emphasised the importance of finding a balance between risk-based and opportunity-based approaches to stablecoins. It is important to put the emergence of stablecoins into perspective. The objective should be to preserve the foundations of Europe's payment system, ensuring that the deployment of tokenised finance delivers its expected efficiency benefits without introducing additional sources of instability or posing a risk to strategic autonomy. These adverse consequences could materialise if the diffusion of stablecoins as a settlement asset leads to the dollarisation and 'stablecoinisation' of a significant part of Europe's payment system.

So far, the deployment of tokenisation has largely been dominated by the development of US dollar stablecoins in the hands of non-EU players. However, alternatives are emerging in the form of stablecoins in euros supplied by EU-based financial service providers. More traditional and safer settlement assets are also emerging in tokenised form. The payment and settlement asset pillar of tokenisation should be developed on the solid foundations of the current two-tier monetary system. This requires secure, efficient, pan-European public and private settlement and payment solutions to ensure complementarity and substitutability between public and private money.

3.4 Supporting a European public-private strategy for tokenised money

A Central Bank official explained that all relevant European players must be mobilised to achieve three complementary objectives. First, central bank money services offered by the Eurosystem must be adapted to the digitalisation of payments and tokenised finance in both wholesale and retail spaces. Secondly, it is necessary to support the development of tokenised private money issued by European financial institutions. The third objective is to design an adequate regulatory framework and to oversee its implementation.

While the digital euro plays an important role, it is just one part of the contribution of the central bank

community. The Banque de France has established a strategic group to bring together the French ecosystem and to facilitate the development of tokenisation and associated payment solutions. This also supports the initiatives developed by European financial institutions, such as the European Payments Initiative (EPI).

MiCA represents a key asset for Europe, but it must continue to evolve in response to developments in tokenisation and to mitigate risks of regulatory arbitrage. In this context, it is important to maintain technology-neutral regulation and to ensure diversity in payment solutions. While euro-denominated stablecoins are part of the solution, they should coexist with other forms of tokenised money in a hierarchy of settlement assets where central bank money remains the safest option. Replicating the existing two-tier monetary system in a tokenised environment is essential in balancing innovation and financial stability.

An industry representative noted that the digital euro alone cannot address the challenges ahead. Continued collaboration between the public and private sectors is needed as tokenisation evolves. While MiCA represents a strong foundation, it should be further enhanced with a better understanding of emerging risks.

3.5 A technology-neutral and market-led approach to stablecoins

3.5.1 Questioning the economic impact and business case of stablecoins

An official observed that the creation of stablecoins will not generate new demand for US treasuries because the total amount of money in circulation will remain the same. It is not the regulator's role to determine whether there is a business case for stablecoins. Stablecoins are financial instruments with financial characteristics. These risks are generally considered manageable. The right approach is to deal with financial risks in the same way, regardless of the medium. Supporting or incentivising one sector over another would be unwise, given that technologically superior solutions have failed to take off in the past. Stablecoins have some convenient use cases, such as providing companies with better ways to manage cross-border liquidity. In other areas, stablecoins resemble riskier money market funds, as users have no entitlement to the reserves.

3.5.2 Managing financial and AML risks without distorting market outcomes

An official noted that the US may not have sufficiently addressed the risk of money laundering and terrorist financing associated with stablecoins. Terrorist organisations increasingly favour crypto assets for fundraising purposes. Unless this risk is properly addressed, granting access to central bank liquidity could have serious unintended consequences.

The concept of strategic autonomy is difficult to grasp. It is unclear whether the digital euro is related to stablecoins or if they are competing for the same use cases. Ultimately, however, this is not for policymakers to decide: their role is to provide a regulatory environment in which risks can be managed, leaving everything else to the private sector.

Conclusion: Balancing Regulation, Innovation and Sovereignty in Europe's Stablecoin Landscape

The Chair observed that opinions remain divided regarding the risks associated with stablecoins, particularly in relation to money laundering and illicit financing. While some consider that stablecoins could significantly increase such risks, others argue that, if properly regulated and designed, they could instead enhance traceability and improve monitoring capabilities. At this stage, much remains to be learnt about how these instruments will function in practice.

He concluded by noting that all panellists share concerns regarding sovereignty and strategic autonomy, although they assign different weights to the roles of regulation and market competition. While some view MiCA, or its future evolution, as the primary tool to safeguard Europe's position, others emphasise the need to foster competitiveness and innovation. These approaches should not be seen as mutually exclusive, but rather as complementary.

There was broad agreement that stablecoins will not operate in isolation, but will coexist with other forms of money, including tokenised deposits and central bank money, particularly in wholesale contexts.

The discussion also highlighted differences in regulatory approaches across jurisdictions. European authorities tend to focus on accommodating the development of stablecoins within a robust regulatory framework, whereas the United States appears more inclined to actively promote their expansion. This distinction reflects a difference in emphasis rather than a strict divergence.

Drawing on past financial developments, the Chair cautioned that complexity and diversification do not always reduce risk, recalling that in previous market episodes, such as structured finance products, the expected benefits of diversification were sometimes offset by a lack of transparency and understanding.

As this understanding evolves, the regulatory framework will need to adapt. MiCA is already up for review next year. Although MiCA has only been in application for just over a year, it was conceived almost four years ago, and much has happened in that time. This is reflected in parts of the Guiding and Establishing National Innovation for U.S. Stablecoins (GENIUS) Act, which builds on MiCA and, in some cases, goes even further.

Finally, he highlighted a key risk that policymakers should not overlook: the risk of acting too late. By focusing excessively on potential downsides, authorities may fail to act in time and inadvertently create new dependencies rather than reducing them. This "risk of being late" should therefore be considered alongside more traditional financial stability risks.