STABLECOINS: IMPLICATIONS FOR THE EU

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Digital finance for a stronger and more autonomous Europe

Digital innovation offers finance a chance to become both more efficient and resilient. Yet, this transformation is unfolding amid geopolitical fragmentation. Economic ties are used as instruments of power, while competition over technology and financial infrastructure is growing. Therefore, strategic autonomy has become urgent for Europe.

Once seen mainly to improve efficiency and financial inclusion, digital finance has become a strategic asset in global competition. Financial infrastructure affects Europe's ability to finance its economy, preserve stability, and act autonomously.

Europe should seize this moment. The goal is a financial system that supports growth, underpins stability, and strengthens the international role of the euro.

Three priorities stand out.

First, Europe must realise the promise of digital finance.

Technology and digitised assets will make transactions faster, reduce intermediaries, and connect markets more efficiently. More importantly, they will help channel Europe's savings into investments.

EU households and non-financial companies hold more than €15 trillion in bank deposits. This is a major source of financial strength. Europe must mobilise it to support defence, innovation, and the green transition. Public budgets alone cannot meet these investment needs. Putting Europe's savings to better use is the aim of the Savings and Investments Union.

The prize goes beyond faster payments: a stronger capacity to finance Europe's future.

Second, Europe must choose the right path: the digital euro and tokenised deposits.

The digital euro is key to this agenda. In everyday payments, it would give citizens a European means of payment backed by the European Central Bank. In financial markets, central bank money will ensure transactions settle safely and irreversibly. Together, these uses of central bank money will reduce Europe's dependence on non-European financial infrastructure and strengthen its financial sovereignty.

Central bank money provides the public foundation. But private money will continue to circulate alongside it. The question is which form private digital money will take.

Stablecoins, mainly used in crypto markets, have flourished most in the US and have been hailed as the ideal way to digitalise finance. At end-May 2026, market capitalisation stood at around USD 320 billion, but the impressive growth registered last year seems to be levelling off. Europe should choose another path.

Tokenised deposits build on the strength of Europe's regulated banking system. Like traditional deposits, they benefit from comprehensive supervision, strong liquidity requirements, and deposit protection. They earn interest, support bank lending, and enable monetary policy transmission.

The significance of tokenisation lies in new functions it enables. Conditions can be built into payments, so funds move only when agreed terms are met. Value can move faster between parties, and tokenised deposits can be used alongside assets held in the same digital form. Finally, each transaction settles as a single event: both sides complete together, or neither does, so no party is left having paid without receiving.

By linking Europe's vast deposit base more directly with investment opportunities and capital markets, tokenised deposits will help direct savings where needed most.

Third, Europe must turn innovation into scale.

Europe must avoid replacing today's fragmentation with new digital barriers. Central bank money, tokenised deposits, and the platforms on which assets are traded must work together.

Europe still depends heavily on non-European payment providers and financial infrastructure. Today, non-European companies handle nearly two-thirds of card transactions in the euro area. Building trusted European capabilities will reduce critical dependencies, reinforce the Single Market, and allow Europe to shape finance rather than adapt to decisions made elsewhere.

Scale will require clear European rules, common standards, and sound governance. Public-private cooperation is needed, with private innovation building on public foundations, above all central bank money. This is why the ESM supports the ECB's work to ensure transactions can continue to be settled safely as financial markets become tokenised.

The benefits extend beyond Europe. A trusted and widely used European digital financial system will also strengthen the international role of the euro. Making the right choices in digitalising the financial system and building a robust financial technology will be crucial to sustain global confidence and stability in Europe.

Europe has the institutions, banking system, savings, and innovative capacity to lead. It can modernise finance without sacrificing stability. By combining central bank money, tokenised deposits, and a system that works across Europe, it can mobilise savings and deepen capital markets. Innovation and stability can, and must, advance together.

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From walling off to wiring in: recalibrating Europe's stablecoin framework

Europe faces a paradox. In a world where the United States actively promotes dollar stablecoins, a very defensive European approach to stablecoins risks becoming self-defeating. European demand for stablecoins does not disappear when EU rules are strict, but it migrates offshore into unregulated dollar instruments, exposing EU holders to US currency and fiscal risk and threatening "infrastructure dollarization".

The right response is not deregulation for its own sake, but a shift from walling off to wiring in: making euro stablecoins commercially viable while anchoring them more firmly to central bank money.

Some authors, like Lucrezia Reichlin, Bo Sangers and Jeromin Zettelmeyer, have recently proposed interesting reforms that should be regarded as a starting point to this recalibration, touching upon liquidity requirements, remuneration of stablecoin holders and access to the ECB's balance sheet.

While some of these proposals can be improved or adjusted in their features, they are a good framework to strike two important points of the agenda to scale up euro-denominated stablecoins:

- The mitigation of the bias towards the banking system, tributary to the inertial force of the status quo and resulting from the current MiCAR's liquidity requirements that demand for issuers to hold 30–60% of reserves as bank deposits; and, on the other hand,
- The importance of central bank money to remain the default settlement anchor even as capital markets tokenize.

Regarding the first aspect, it should be noted that this rule compresses issuer margins as volumes scale, disadvantaging euro stablecoins relative to GENIUS-compliant dollar coins that face no such constraint and also to tokenized deposits.

The "significant issuer" designation compounds this bias: capital requirements rise at the very point an issuer becomes commercially viable, penalizing the scale that would let euro stablecoins compete with dollar incumbents on liquidity and network effects.

Liquidity standards can instead converge toward the stricter GENIUS-style asset-quality rules without the deposit mandate.

> **The right response is not deregulation for its own sake, but a shift from walling off to wiring in.**

Furthermore, none of these reforms should be seen as diluting the primacy of public money. Central bank money must remain the ultimate settlement anchor in wholesale markets, because singleness of money cannot be sustained by private promises alone.

To preserve a central role for central bank money in the age of tokenization, it is essential to accelerate the ECB's Appia project to connect distributed ledger platforms with TARGET services, prioritizing the issuance of tokenized central bank reserves. Without an interoperable public settlement layer, tokenized markets will rationally gravitate toward whichever private settlement asset is most liquid: currently, the dollar. That is why this is not a peripheral technical upgrade but the load-bearing element of the entire strategy.

Objections to this path could center on financial disintermediation: would growing stablecoins drain deposits and starve banks of funding for credit creation? However, evidence suggests this fear is overstated. Euro-area banks currently hold roughly €2.3 trillion in excess liquidity, making a binding funding constraint unlikely.

Some moderate safeguards could be considered, nonetheless, such as establishing a framework for assessing the equivalence of third countries' legal regimes, ensuring that competent authorities have full access to relevant data, and increasing transparency through disclosure.

However, in the end, Europe cannot choose solely between financial safety and monetary sovereignty, because pursuing safety through prohibition actively undermines sovereignty by ceding the tokenized payments layer to dollar instruments.

The alternative is to bring stablecoins inside the regulatory perimeter as a form of central-bank-anchored inside money, because settlement remains euro-denominated and interoperable with public infrastructure.

Furthermore, the promotion of euro-denominated stablecoins is a decisive step as part of a broader journey to boost the international role of the euro. American banks clearly saw this connection and accepted a lighter touch stablecoin regime because dollar stablecoins reinforce, rather than threaten, the dollar's global reserve status.

This journey also includes more issuance of EU common debt to fund common public goods, strengthen the single market, complete the Banking Union and the Capital Markets Union, and continue the significant effort of simplification. Also, this journey must be built on strong foundations, such as deep financial markets, rule of law, a powerful military and a strong and open economy.

This is how Europe secures both the singleness of money and a competitive digital euro ecosystem, preserving a stability that is more than the fatal 'stability of the graveyard' and reasserting its strategic weight in the world scene.

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Stablecoins: Enabling innovation without weakening Europe's sovereignty

Stablecoins have moved from the margins of crypto markets into the strategic debate on the future of money, payments, and financial market infrastructure. While their scale is still modest compared with the traditional financial system, their direction of travel matters. The global stablecoin market stands at roughly USD 304 billion, around 99% of which is denominated in US dollars (as at July 2026; source: Coingecko). Two issuers – Tether and Circle – account for more than four-fifths of the market. Euro-denominated stablecoins remain very small by comparison, although initiatives such as EURC, EURAU – Germany's first BaFin-licensed euro stablecoin – and the Qivalis project show that market interest in Europe is growing.

From a central banking perspective, stablecoins have raised a strategic question for Europe. If tokenised financial markets, collateral management, and cross-border payments increasingly rely on US-dollar stablecoins, Europe could be faced with a further, gradual "dollarisation" of infrastructure in its digital financial system. This would not simply affect choice with regard to payments. It could potentially deepen dependence on non-European issuers, infrastructures, legal standards, and regulatory decisions, whilst weakening the role of European monetary and payment infrastructures in future tokenised markets. If critical interbank payments are increasingly settled in stablecoins rather than default-free central bank money, new risks related to concentration, default, and liquidity could arise.

For this reason, central bank money must remain the anchor of the monetary system, including in tokenised finance. In wholesale and interbank settlement, stablecoins should not aim to replace central bank money where it is both practical and available. The Eurosystem's work on tokenised wholesale central bank money is therefore of central importance. These projects will allow tokenised assets to be settled in central bank money and provide a secure foundation for programmable wholesale transactions. In parallel, tokenised commercial bank deposits could support innovation while remaining consistent with the two-tier monetary system.

Euro-denominated stablecoins may still play a role, but a specific one. They can complement – not replace – public money and bank-based solutions where no suitable alternatives are yet available. Supporting European, euro-denominated, and properly regulated solutions could reduce dependence on offshore US-dollar stablecoins and help to strengthen the international role of the euro. However, this support must not come at the price of weakening prudential safeguards. Stablecoins address genuine frictions in today's payment and settlement systems, but their design can shift liquidity, credit, legal, and operational risks into less robust parts of the financial system if not adequately regulated.

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The Markets in Crypto-Assets Regulation (MiCAR) is a major regulatory achievement, as it provides a harmonised European regulatory framework for crypto-assets, including e-money tokens and asset-referenced tokens, known as stablecoins. It establishes requirements with regard to authorisation, reserves, redemption rights, governance, and supervision. However, implementation is already revealing areas in which further development is needed. The most urgent issue that needs addressing in the MiCAR review is third-country multi-issuance. In multi-issuance models, the same stablecoin may be issued both inside and outside the EU, while reserve structures and redemption obligations differ across jurisdictions. In a scenario of stress, redemption pressures could be directed towards the EU issuer and EU reserves, even if the token circulates globally. This creates risks of runs and possible contagion to EU financial institutions holding reserve assets.

The Bundesbank therefore supports targeted improvements to MiCAR. If a revised MiCAR were to permit multi-issuance structures, their risks must be addressed by clear rules on reserve allocation, redemption responsibility, supervisory access to data, enforceability of EU safeguards, and the prevention of regulatory arbitrage.

The EU needs competitive digital payment and settlement solutions, stronger capital markets, resilient market infrastructures and a regulatory framework that enables responsible innovation. Stablecoins could be a part of that landscape because they respond to real frictions: limited operating hours in some payment systems, costly cross-border transfers, fragmented market infrastructures, and demand for programmable settlement assets. These benefits should not be dismissed. The policy challenge is to preserve them where they are useful whilst ensuring that the cash settlement asset does not become a source of monetary fragmentation, liquidity risk, or regulatory dependency. Nevertheless, the foundation must remain clear: trust must remain anchored in central bank money, sound regulation, and resilient European infrastructures.

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Building Europe's competitive edge in a global tokenised economy

A new generation of financial market infrastructures is emerging, creating new opportunities to enhance the efficiency, reach and resilience of financial markets. Across the financial services industry, in payments and capital markets – and increasingly in multiple economic sectors – tokenisation moves from proof-of-concept to adoption.

The question is no longer whether tokenised technologies will play a role in the future of finance, but how they can be deployed in a way that supports trust, liquidity and long-term growth. While much of the debate has focused on technology itself, financial markets ultimately succeed through their ability to attract liquidity, connect participants and provide confidence in settlement.

Europe's ambition to build deeper, more liquid and internationally competitive capital markets can be accelerated by the growing adoption of tokenisation. These markets are unlikely to develop within national or regional boundaries alone; they will depend on cross-border participation, connected infrastructures and access to deep pools of liquidity.

Cooperation between Europe's major financial centres will therefore remain important. Given London's role as one of the world's leading international financial centres, maintaining strong links between UK and EU markets can help support the scale and liquidity needed for these emerging markets to develop successfully.

The UK and the EU are deeply connected to international financial markets through longstanding regulatory, commercial and infrastructure links. Building on these connections can promote compatibility across jurisdictions, support scale and reduce fragmentation.

As new forms of digital money emerge, the availability of trusted settlement assets across major currencies will remain important for resilience, market confidence and long-term adoption. The debate should not be framed as a choice between forms of digital money. Wholesale central bank digital currencies (CBDC), tokenised commercial bank money and stablecoins can fulfil complementary functions in future settlement systems.

Building foundations for competitive digital financial markets

Wholesale central bank money will remain the settlement anchor of future wholesale financial markets, providing the trust, settlement finality and monetary foundation on which tokenised market structures can develop.

Building on this foundation, tokenised commercial bank money can extend existing banking models into programmable environments, while stablecoins can support new payment and distribution models. The question is not only which forms of digital money are available, but how they operate together.

> Europe can strengthen the international role of the euro and unlock new sources of growth.

Initiatives such as Projects Pontes and Appia in the euro-area, the international Project Agorá and other wholesale innovation programmes for a multi-money environment led by central banks, including the Bank of England - reflect growing recognition that the next phase of market development will depend on effective interaction between trusted public settlement assets and private sector innovation.

Regulatory conditions for success

Tokenised wholesale financial markets grounded in central bank money require legal certainty that ensures that the assets and instruments that flow within possess the necessary settlement finality.

Forward-looking regulatory frameworks support the common technical, data and legal standards required for interoperable platforms and networks. This is underpinned by the 'same risk, same rules' principle which supports innovation, investment and competitiveness. In the EU, the Markets in Crypto-Assets Regulation (MiCAR) is essential for that and will now be further complemented by the Markets Integration and Supervision Package (MISP). Clear signals from legislators and regulators can provide the certainty needed for investment and wider adoption.

As digital markets evolve, multiple initiatives are emerging across jurisdictions and market segments. The priority is to ensure that common principles, compatible frameworks and interoperability preserve resilience while supporting innovation at scale.

Conclusion

The greatest opportunity for Europe lies in creating the conditions for a competitive and interoperable digital financial ecosystem that can support innovation, investment, market integration and long-term growth.

Success will depend on combining trusted settlement assets, innovation and market scale within an open and internationally connected framework. Wholesale CBDCs can provide the settlement foundation for tokenised, multi-money markets while supporting deeper European capital markets.

By doing so, Europe can strengthen the international role of the euro and unlock new sources of growth across a tokenised economy.

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Europe needs a sovereign architecture to preserve the two-tier monetary system

The tokenization revolution is coming, and for good reasons! Putting assets and their cash leg on the same ledgers means you can settle a transaction instantly, without counterparty risk and the usual chain of intermediaries. That is a real gain for European markets: faster, cheaper settlement, and a useful contribution to the broader push for more integrated capital markets in Europe, in other words for the SIU. But technology is not the hard part. The hard part is making sure that, in the rush, we do not inadvertently break the monetary system that makes all of this trustworthy.

This system rests on two tiers: central bank money as the anchor, and commercial bank money, created by commercial banks through lending, i.e. financing the real economy. It has worked for a long time, precisely because both layers stay convertible to each other at par, and because banks can expand credit when the economy needs it, under the control of the central bank (through its monetary policy and prudential regulation). Any new form of money that gets in the way of that, i.e. that pulls deposits away from banks or that can't expand and contract with demand, would be an issue for the European economy.

In this respect, stablecoins are not money in the full sense. They can be useful, for low-value cross-border transfers, for settling tokenised funds, for peer-to-peer payments at low cost. A euro-denominated stablecoin also matters, because today almost all of the market is in dollars, which is not a neutral fact for Europe. But in any case, stablecoins must be 100% backed by safe assets at all times, so it cannot expand with credit the way bank deposits can thanks to the principle of "fractional reserves". And as they are bearer instruments, traded on secondary markets, they can lose their parity with their reference fiat currency. For these reasons, they should not become a store of value competing with bank deposits, and should therefore remain non-interest-bearing payment tokens complementing existing payment rails.

This calls for adjustments to MiCAR. First, replace the rigid 30%/60% bank-deposit rule with a flexible, risk-based allocation toward diversified, high-quality liquid assets, in line with the GENIUS Act, while restricting eligible instruments to issuers established in the EU/EEA, to prevent liquidity leakage outside Europe. Second, require bank issuers to segregate reserve assets on the same basis as e-money institutions, to remove the regulatory asymmetry between the two. Third, bring multi-issuance schemes within MiCA's scope and adapt rules to ensure that even when a part of the reserves sits with a non-EU partner (i.e. multi-issuance), EU holders cannot be left exposed in stress scenario.

> None of this is primarily about technology, it is about combining innovation with monetary stability.

Tokenised commercial bank money is different. Whether it takes the form of a tokenised deposit, i.e. existing bank account mirrored on a ledger, or a deposit token issued directly on-chain, it is never traded in secondary markets and always stays convertible at par, circulates only among contractually bound, identified participants, and keeps the same capacity to expand through credit as a normal deposit. Nothing about its nature changes; only the infrastructure does. For it to scale, banks need the same prudential and liquidity treatment than ordinary deposits, and a common legal framework across European jurisdictions so it doesn't stay a patchwork of national experiments.

Central bank money is also essential. Once banks have netted their bilateral exposures, a settlement mechanism is required to reduce the residual exposure, and that has always been central bank money, the only cash settlement that removes counterparty risk. The ECB's Pontes project, due later this year, will connect private DLT platforms to central bank systems. The ECB's Appia project goes further, exploring extended functionalities for central bank money on an extended scope of infrastructures. Both projects should be delivered as soon as possible. As for the BIS's Agorá initiative, which covers the settlement of tokenized deposits with central bank money internationally, its European part should be integrated into Appia to avoid duplication.

The last piece is where all this settles, i.e. the DLT networks themselves. Such DLT networks should be operated by private operators in Europe and fulfil eligibility criteria for critical financial market infrastructure. Europe has the critical mass to make such networks successful: governance and validators based in Europe, clear legal settlement finality, tokenised central bank money available as the trusted settlement asset, and enough openness to connect with other networks without splintering liquidity.

None of this is primarily about technology. It is about combining innovation with monetary stability and ensuring that the benefits of DLT, and, where relevant, stablecoins, can be fully harnessed while preserving the strengths of the two-tier monetary system that has long underpinned monetary stability and the financing of the economy.

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Stablecoins in the EU: Building on MiCA's foundations

Stablecoins in the EU: Building on MiCA's Foundations

Europe has established itself as a global leader in digital asset regulation through MiCA, but that first-mover advantage has not yet translated into significant euro-denominated stablecoin issuance. MiCA's origins were defensive: to prevent another Libra. To realize the full potential of stablecoins, alongside other forms of tokenized money, policymakers must now transition from defensive safeguards to a framework that actively promotes utility and market growth.

Safeguarding the Promise of Digital Money

Stablecoins arose to provide a form of on-chain programmable money. Initially they took many forms: algorithmic, crypto-backed, and fiat-backed. Following the high-profile collapse of Terra Luna, the market coalesced around fiat-backed stablecoins and USDT and USDC became the predominant stablecoins used for payments–largely as the cash leg of crypto transactions. As stablecoins have matured, they have begun to improve cross-border transactions, serve new commercial models, and enable new payment modalities such as autonomous agents making frequent, sub-cent purchases for token usage or compute time—all of which traditional payment rails weren't designed to do.

The policy question that arose was how to ensure the stability of this tokenized money. Europe was well-placed to provide an answer, looking to its framework for e-money as the model. At its core, a stablecoin is a claim on the issuer, carrying the same fundamental promise as a bank deposit or e-money: a credible 1-for-1 redemption right into cash. MiCA's rigorous safeguarding regime—anchored by 1-for-1 backing with safe and liquid assets—is essential to making this promise credible in everyday commerce. But it is not novel—it builds on the success of the e-money regime.

However, the initial policy design can be improved upon in ways that will strengthen reserve management, improve stablecoin utility, and promote financial stability. Requiring issuers to hold substantial reserves as deposits in commercial banks creates unnecessary operational friction and centralizes risk. True resilience is better served by diversifying reserves into short-term sovereign debt. Europe faces a particular challenge in this area, with a shortage of short-duration risk-free assets. Central bank money should also play a key role in reserve management. Keeping central bank money at the foundation of tokenized money would ensure the singleness of money and protect financial stability, while also mitigating the relative scarcity of risk-free euro-denominated assets.

Policymakers must transition from defensive safeguards to frameworks that promote utility and growth.

Integration into Modern Payments

For stablecoins to function as money, they must be treated as money across the broader regulatory landscape. This requires aligning stablecoin oversight with existing payment services regulations and ensuring that tax and accounting treatment do not hinder their use. If routine transactions trigger complex tax reporting obligations, stablecoins will struggle to serve as a viable medium of exchange. Europe must ensure that regulated stablecoins are able to be integrated seamlessly into the financial plumbing used by businesses and citizens alike–alongside tokenized deposits and the digital euro, providing a modern two-tier monetary system that supports payments innovation.

Strategic Sovereignty and Global Reach

Stablecoins are inherently global. If euro stablecoins are restricted to intra-European use, they offer no protection against the disruption of Europe's access to global markets by foreign powers. By enabling multi-issuance arrangements and dynamic global reserve management, European policymakers can ensure that stablecoin activity within the EU is regulated in accordance with Europe's rules, while complementing the role of the digital euro domestically and enhancing the role of the euro in international digital finance. Europe should enable supervisory authorities to address the potential risks of multi-issuance–through dynamic reserve management arrangements, contingency and resolution planning, and international coordination—adopting hard requirements only once best practices have emerged. In global markets, sovereignty is achieved not through isolation but through flexible market-driven arrangements backed by world-class supervision.

Conclusion

Europe's success with SEPA demonstrated the power of integrated financial infrastructure, and its e-money framework paved the road to ensure stable nonbank money. Today, a similar opportunity exists with stablecoins. By modernizing supervisory tools to embrace open network architectures, the Union can secure its strategic autonomy and provide a resilient monetary layer, both public and private, for the digital age.