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## Stablecoin growth – policy challenges and approaches

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# Stablecoin growth – policy challenges and approaches

*Key takeaways*

- *Stablecoins' linkages with the traditional financial system are growing, which raises policy challenges ranging from preserving financial integrity to mitigating financial stability risks.*
- *Broader use of foreign currency-denominated stablecoins could raise concerns about monetary sovereignty and, in some jurisdictions, erode the effectiveness of existing foreign exchange regulations.*
- *The principle of "same risks, same regulation" faces limitations in the context of stablecoins, highlighting the need for tailored regulatory approaches that address the nature and specific features of stablecoins.*

Stablecoins are cryptoasset tokens that circulate mainly on public permissionless blockchains and strive to maintain a stable value relative to a reference asset. Most stablecoins are pegged to the US dollar, promising redeeming investors one dollar for each stablecoin on demand, much like other forms of money or money-like claims, such as bank deposits or money market fund (MMF) shares. Major stablecoin issuers back their tokens primarily with fiat-denominated short-term assets such as Treasuries, repurchase agreements and bank deposits. In the light of their rapid growth, stablecoins have become a focal point in policy debates about the future of money in an increasingly digitalised financial system.

Stablecoins' rising market capitalisation and increasing interconnections with the traditional financial system have reached a stage where potential spillovers to that system can no longer be ruled out. In response, many jurisdictions have introduced, or are in the process of developing or updating, bespoke regulatory frameworks for cryptoassets and stablecoins, building on the high-level principles established by international standard setters.[1] The latest BIS survey of central banks on digital currencies, covering data as of end-2024, suggests that almost 70% of responding jurisdictions already had or were developing regulatory frameworks for stablecoins (Illes et al (2025)). Many of these frameworks focus on asset backing, disclosures, financial stability, consumer/investor protection and countering illicit activities.

This Bulletin takes stock of the current state of the stablecoin market and assesses the key policy challenges surrounding the circulation of stablecoins in public blockchains. Although stablecoins bear some resemblance to conventional financial products (such as MMFs, or money market exchange-traded funds), they present a unique set of challenges given their borderless and pseudonymous nature. In this regard, the principle of "same risks, same regulation" faces inherent limitations: since "same risks" does not apply, the prescription "same regulation" has only limited bite. The policy response will need more tailored approaches that target the nature and specific features of stablecoins. For example, it could

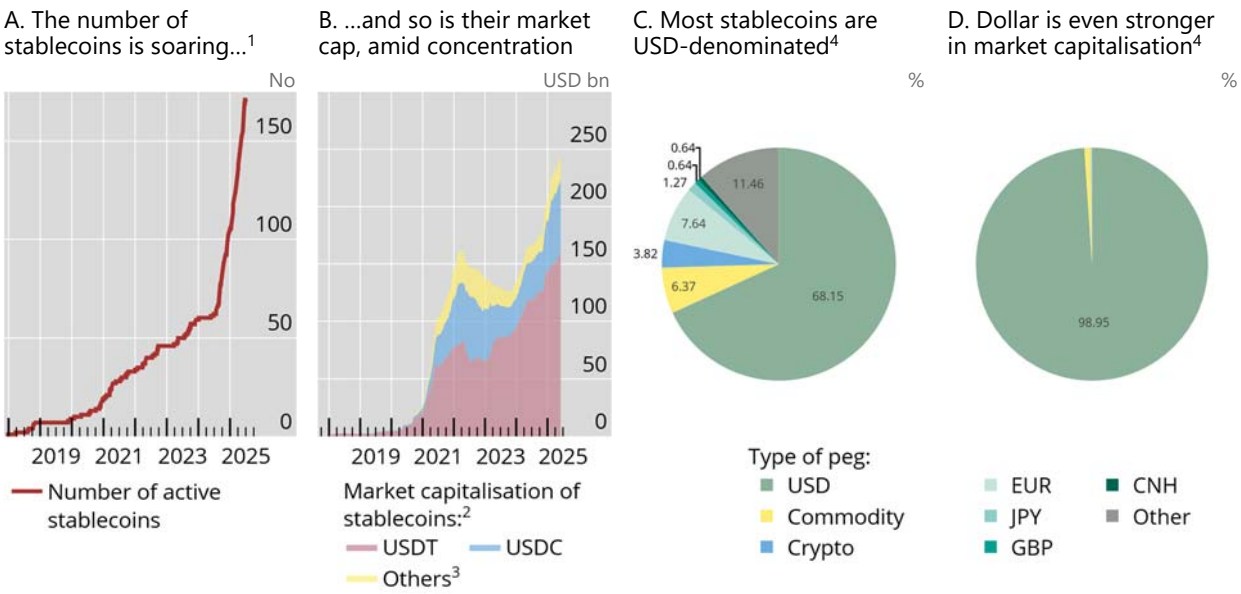
[1] See, for instance, CPMI-IOSCO (2022), FSB (2023), IOSCO (2023) and BCBS (2024).

leverage the traceability of their history and provenance on public blockchains to design more effective integrity rules against illicit use, especially at points of contact with the regulated financial system.

## Stablecoin growth: taking stock

Stablecoins have experienced rapid growth in recent years and remain predominantly centred around the US dollar. The number of stablecoins in active use has soared from around 60 in mid-2024 to over 170 today (Graph 1.A). Equally striking is the sharp increase in market capitalisation, which has grown from $125 billion less than two years ago to around $255 billion today. While this is equivalent to around 1.5% of US bank deposits, it amounts to about 4% of the assets held by government money market funds (GMMFs) in the United States. Despite the proliferation in the number of stablecoins, the market remains highly concentrated, with around 90% of market capitalisation accounted for by just two issuers (Graph 1.B). The market is also overwhelmingly dominated by the US dollar as the reference asset. To date, almost 70% of active stablecoins by count (Graph 1.C), and almost 99% by market value, are denominated in dollars (Graph 1.D).

Stablecoins continue to grow — Graph 1




[1] Based on data availability and the classification by Kosse et al (2023). Active stablecoins are those with a market capitalisation larger than 0. [2] As of 30 May 2025. [3] Includes 47 stablecoins. [4] As of 10 June 2025. "Other" includes other fiat currencies and a basket of different assets.

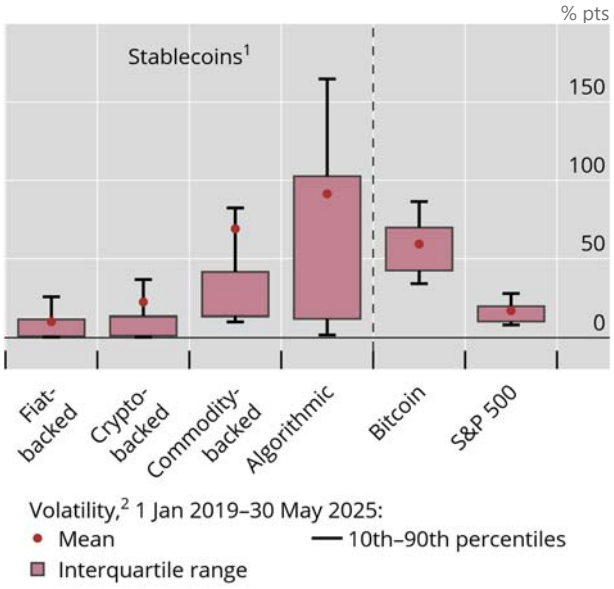
Sources: BIS (2025); CoinDesk Data; CoinGecko; Kosse et al (2023); authors' calculations.

Despite promising a stable value, stablecoins have experienced episodes of high price volatility. Indeed, some stablecoins exhibit volatility in excess of stocks or even unbacked cryptoassets, such as bitcoin (Graph 2.A). Yet even fiat-backed stablecoins – by a good margin the least volatile within the stablecoin space – rarely trade exactly at par relative to the unit of account in secondary markets, even during tranquil times and more recently as the market matured (Graph 2.B). This stands in stark contrast with current forms of money used for everyday transactions such as bank deposits, questioning stablecoins' ability to serve as a reliable means of payment (BIS (2025)). Several instances in which stablecoins broke their pegs more significantly underscore these concerns (Ahmed et al (2025)).

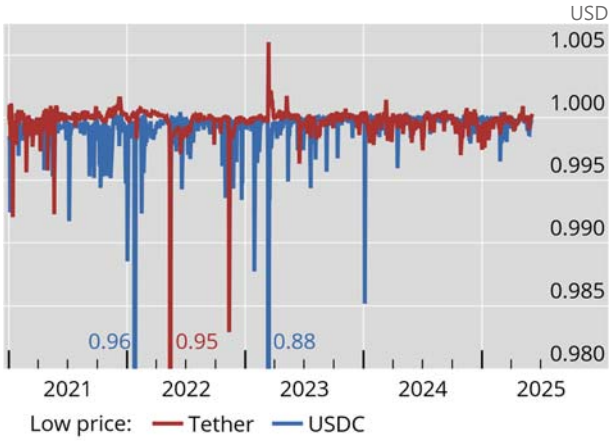
## Volatility and peg deviations of stablecoins

Graph 2

A. Fiat-backing reduces, but does not eliminate, price volatility in secondary markets




B. Frequent deviations from par even for the least volatile stablecoins




[1] Based on data availability and the classification by Kosse et al (2023), with the exception that we refer to "algorithmic" rather than "unbacked" stablecoins, to avoid confusion with unbacked cryptoassets where that term is used. Algorithmic stablecoins are those that maintain their value through algorithms that mint or burn tokens and adjust their supply based on market demand. [2] Volatility is defined as the annualised standard deviation of daily returns computed on 21-trading day moving windows.

Sources: Kosse et al (2023); CoinDesk Data; authors' calculations.

## Policy challenges

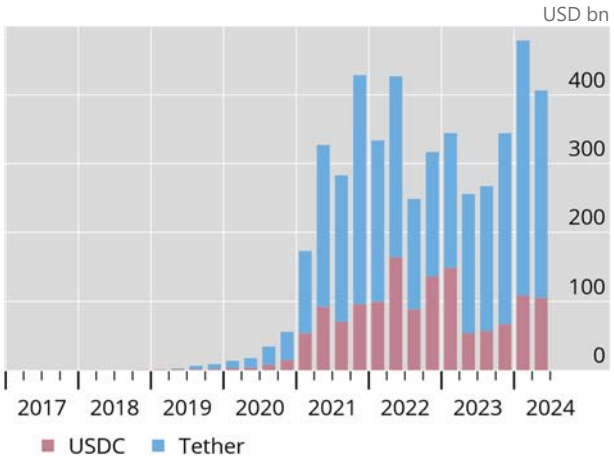
The growing prevalence of stablecoins raises several policy challenges. An immediate concern is their use for illicit activities, and the challenges in enforcing anti-money laundering and combating the financing of terrorism (AML/CFT) regulations. As digital bearer instruments, stablecoins can circulate freely across borders on permissionless public blockchains onto different exchanges and into self-hosted wallets. This makes them prone to weaknesses with know-your-customer (KYC) compliance, increasing their attractiveness for criminal and terrorist organisations (FATF (2025); Garratt and Shin (2023)). In contrast to the traditional financial system, where illicit flows are monitored at the time of account updates by intermediaries, the burden in combating illicit flows using crypto currently falls mostly on public AML authorities themselves. While stablecoin issuers and exchanges can freeze balances, and occasionally do so at the request of public authorities for high-profile cases of financial crime, employing a request-based approach for billions of transactions with pseudonymous addresses would quickly overwhelm the capacity of those authorities.

The prospect of broader use of foreign currency-denominated stablecoins has also prompted questions about monetary sovereignty. Stablecoins' cross-border use has been growing, with quarterly trading volumes exceeding $400 billion for the two largest coins (Graph 3.A). Moreover, recourse to stablecoins in cross-border transactions tends to rise following episodes of high inflation and foreign exchange volatility (Auer et al (2025)), particularly in economies with high awareness of stablecoins, as gauged from internet searches (Graph 3.B). Broad-based stablecoin adoption could provide seamless access to dollar-denominated claims for non-US residents, potentially weakening the effectiveness of domestic monetary policy. Moreover, it could undermine the effectiveness of foreign exchange regulations or capital controls in those countries that employ them as documented for bitcoin (eg von Luckner et al (2024)) and other cryptoassets (Auer et al (2025)).

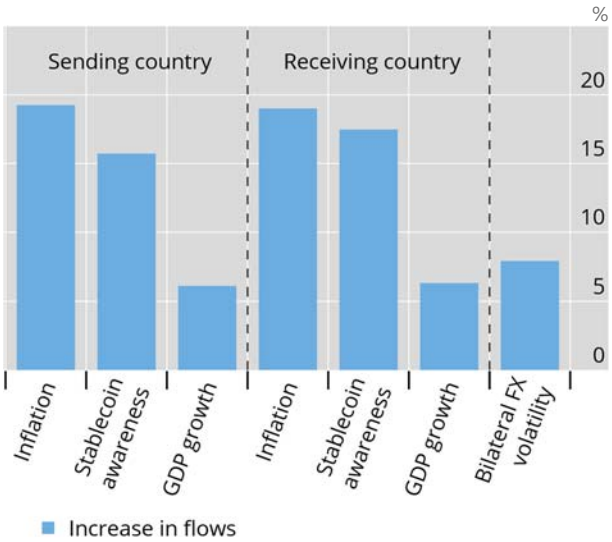
## Cross-border use of stablecoins has been rising, reflecting a mix of drivers

Graph 3

A. Cross-border stablecoin flows are back on the rise




B. Country-level drivers of cross-border stablecoin flows[1]




[1] Estimated increase in bilateral cross-border tether flows for sending and receiving countries that experience high inflation (ie top quartile of a large sample of countries from 2017 to 2024), GDP growth, stablecoin awareness or bilateral exchange rate (FX) volatility.

Sources: Auer et al (2025); Chainalysis.

An additional set of issues relates to stablecoins' impact on the markets where they invest their backing assets, especially as the sector is highly concentrated. The largest stablecoins hold high-quality dollar-denominated assets, in particular short-dated US Treasuries (mainly Treasury bills). During 2024, these stablecoin issuers' net purchases of Treasury securities were reportedly comparable with those of investors in large countries and other jurisdictions, and GMMFs (Graph 4.A).

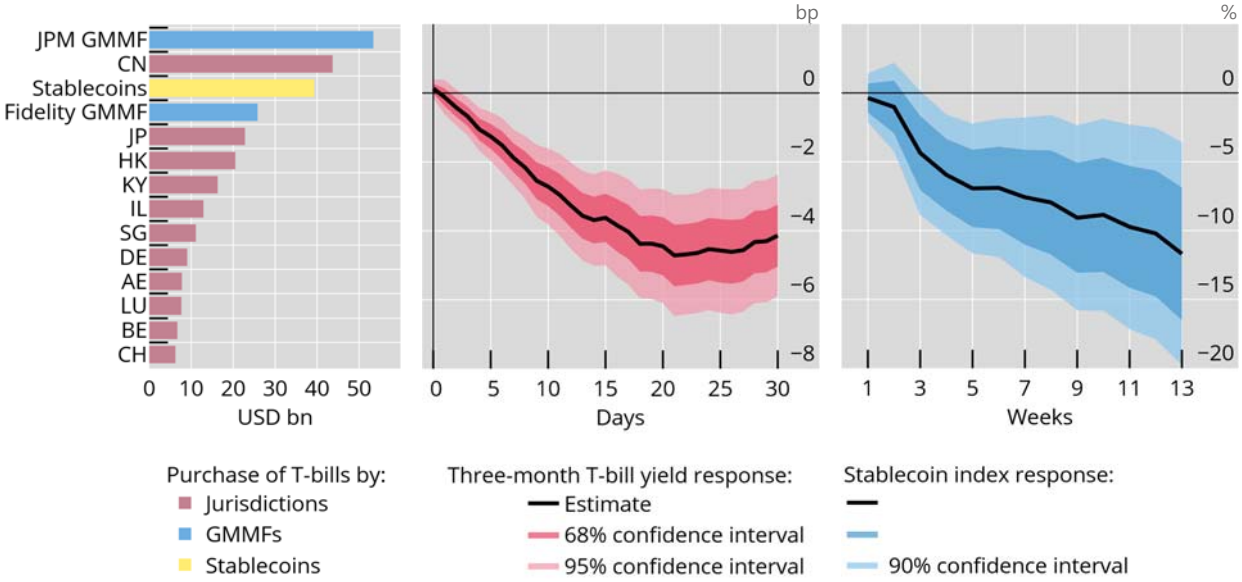
The continued growth of stablecoins and their investment in Treasury bills could have a material impact on market yields, potentially affecting the pass-through of monetary policy. Ahmed and Aldasoro (2025) estimate that a $3.5 billion inflow into stablecoins (roughly two standard deviations) reduces Treasury bill yields by around 2.5–5 basis points (Graph 4.B). However, effects are asymmetric: outflows increase yields by two to three times as much as inflows lower them, consistent with the former forcing stablecoin issuers to liquidate their holdings quickly. As well as the possible impact on monetary policy transmission, such impact may raise concerns about potential fire sales under adverse market conditions, suggesting that regulatory requirements may be needed to strengthen stablecoin issuers' liquidity risk management and capacity to withstand shocks (Goel et al (2025)).

Moreover, stablecoins appear to be sensitive to an increase in short-term interest rates. This sensitivity has been evident in their declining market capitalisation during periods of monetary policy tightening, a pattern that is consistent with investors responding to rising opportunity costs of holding stablecoins (Graph 4.C; Aldasoro et al (2025)). In contrast, MMF assets tend to grow when policy rates rise, as investors reallocate funds from bank deposits to higher-yielding MMF shares (Aldasoro and Doerr (2023)). Looking ahead, the emergence of tokenised MMF shares could further amplify stablecoins' sensitivity to rising opportunity costs. As blockchain-based tokens offering par convertibility to the sovereign unit of account while paying market rates of interest, tokenised GMMFs would represent an even closer substitute, potentially reshaping the stablecoin market.

The management of stablecoin reserves can further deepen interconnectedness with the traditional financial system, extending beyond treasury holdings. For instance, some stablecoin issuers rely on reverse repos to generate additional income. During market stress, this could strain repo market liquidity, with spillovers on other short-term dollar funding markets. In addition, interconnections arise through direct

exposure to banks via deposit holdings, which are mandated by regulatory requirements in some jurisdictions. Stablecoins effectively pool dispersed (largely) insured retail deposits and partly channel the funds back to bank balance sheets as uninsured wholesale deposits or through reverse repos.

Stablecoins' effects on safe asset markets and reaction to monetary policy Graph 4




[1] Stablecoin T-bill purchases reflect changes in T-bill holdings for Tether and Circle from December 2023 to December 2024. GMMF = government money market fund. [2] Results from local projections measuring the impact of a $3.5 billion stablecoin inflow, using regressions of five-day stablecoin flows on *h*-day-ahead three-month T-bill yield changes. Controls include *h*-day-ahead and five-day T-bill, T-note and T-bond yield changes across various maturities, five-day log changes in bitcoin and ether prices, where *h* goes from zero to 30 days. Data cover January 2021 to March 2025. See Ahmed and Aldasoro (2025) for details. [3] Impulse response to a monetary policy shock scaled to reduce bitcoin prices by 10%. For details, see Aldasoro et al (2025). The stablecoin index corresponds to the combined market capitalisation of tether, USDC and dai.

Sources: Ahmed and Aldasoro (2025); Aldasoro et al (2025); BIS (2025).

## Policy approaches

The growing integration of stablecoins with the traditional financial system, combined with their inherent shortcomings, require a policy response. Clearly, stablecoins share some characteristics with various traditional financial products such as MMFs, ETFs, different types of e-money and even cheques among others. As promises to deliver a dollar on demand, they raise the important question of who can backstop that promise if it fails – and history suggests that promises to pay are always tested and often fail (Aldasoro et al (2024)). But more generally, and in contrast with existing financial instruments, stablecoins transact seamlessly across the globe on permissionless blockchains amid regulatory frameworks that are often confined to jurisdictional borders. Applying the "same risks, same regulation" principle thus faces the inherent limitation of distinguishing the "same risks" from the specific features of stablecoins.

A bespoke framework for stablecoins should reflect their multifaceted nature while building on the regulatory experience from traditional finance. This entails identifying the various functions that stablecoins perform and applying proven regulatory strategies from similar functions in traditional finance (Aquilina et al (2024)). Such an approach requires more customised strategies to address stablecoins' unique characteristics and specific attributes, while leveraging the information provided by blockchains. For one, tracking stablecoin provenance through the network of wallets could enhance integrity regulation to combat money laundering and other unlawful activities, particularly at the interface with the regulated

financial system. Bespoke frameworks need not imply a reduction in regulatory stringency. On the contrary, since many entities within the stablecoin ecosystem operate without established safeguards, a more restrictive regime may be necessary than in traditional finance, where such safeguards are in place. International cooperation will be crucial, given the ease with which stablecoins move across borders. Importantly, the principle of technological neutrality in regulation should not be compromised, to avoid creating an uneven playing field with potentially far-reaching and lasting consequences (Awrey (2024)).

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