SPEECH

Stablecoins and the future of money: separating functions from instruments

Speech by Christine Lagarde, President of the ECB, at the Banco de España LatAm Economic Forum in Roda de Bará, Spain

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It is a privilege to be at Castillo de Bará for the inaugural Banco de España LatAm Economic Forum.

Few developments in recent years have moved from the periphery to the centre of the policy debate as quickly as stablecoins.

Stablecoins have grown from less than USD 10 billion six years ago to more than USD 300 billion today. They are overwhelmingly denominated in US dollars, and nearly 90% of the market is controlled by two issuers – Tether and Circle – based in El Salvador and the United States, respectively.

As their adoption has expanded and their links to the real financial system are deepening, the risks they pose have come firmly into focus, especially as regards financial stability. These concerns have been particularly acute in parts of Latin America and Africa, but they are now firmly part of the policy debate in advanced economies as well.

Europe was early to recognise this. The Markets in Crypto-Assets Regulation (MiCAR) brought stablecoins within the regulatory perimeter in 2024, ahead of developments elsewhere, aiming to contain these risks and safeguard the integrity of the financial system.

In the United States, however, the approach has taken a broader turn. The GENIUS Act is not just a consumer protection and financial stability measure. The US Administration explicitly describes it as a tool to ensure “the continued global dominance of the U.S. dollar” and to cement demand for US Treasuries.[1] The terms of the debate have shifted with it. It is no longer about whether stablecoins should exist, but whether jurisdictions can afford to be without them.

The growing argument is that to remain relevant, Europe must respond by promoting euro-denominated stablecoins of its own. Otherwise, it faces a future of digital dollarisation and a loss of monetary sovereignty.

But what this debate has not asked clearly enough is what, precisely, stablecoins are *for*. The benefits attributed to them rest on two distinct functions – a monetary function and a technological function – that are systematically conflated in the current debate. To navigate clearly, we need to separate them.

A thinker born on this very peninsula 2,000 years ago put it plainly. Seneca wrote *“Ignoranti quem portum petat, nullus suus ventus est”.* To one who does not know to which port one is sailing, no wind is favourable.

The argument I want to develop today is that once we disentangle those two functions, the case for promoting euro-denominated stablecoins is far weaker than it appears. And a more fundamental question comes into view: do we actually need stablecoins to obtain the benefits they are said to provide? Or are we mistaking the instrument for the outcome, when what matters is the architecture underpinning which other instruments can safely emerge?

One instrument, two functions

Stablecoins were initially designed to solve a narrow problem within the crypto ecosystem: price volatility.

To make a specific type of crypto-asset usable for settlement, the creators of stablecoins anchored them mainly to fiat money,[2] the very system they had originally sought to bypass, backing each token one-for-one with cash and short-dated government debt.[3]

That design choice made stablecoins the internal settlement currency of decentralised finance and the primary bridge between crypto and currencies. It still accounts for the overwhelming majority of their transaction volume.

But as stablecoins move beyond the crypto ecosystem, two distinct functions have started coming into view.

The first is monetary.

Stablecoins are increasingly seen as a way to extend the global reach of reserve currencies by easing two long-standing constraints on how those currencies circulate and who can hold the assets behind them.

The first constraint is access to cross-border payment infrastructure. Historically, that access ran through merchant houses in the Renaissance and nowadays comes via the correspondent banking networks.[4]

Stablecoins allow monetary value to move outside traditional banking channels, with fewer intermediaries and allegedly lower costs, extending the currency's reach into areas where access has declined. This is most evident when transactions remain inside the crypto ecosystem, as is increasingly the case in cross-border business-to-business payments, which already account for around 60% of stablecoin payment volume – though that volume amounts to just 0.01 % of global business-to-business flows.[5] Converting into and out of stablecoins, however, incurs costs that can erode those gains.

The second constraint is the ease of holding the currency outside its home jurisdiction. Households abroad have long held dollars in physical form, and institutions have held them through capital markets. But each route involves friction, with cash being cumbersome and earning no yield, and capital market access remaining the preserve of institutional investors.

Stablecoins reduce those frictions, as digital access is faster and easier than hard cash, and it reaches savers in countries where weak currencies can erode savings. In economies where access to a stable currency has historically been constrained, transaction flows already reach around 7.7% of GDP in Latin America and 6.7% in Africa and the Middle East.[6]

The implications deepen if stablecoins were to be remunerated. As US dollar-pegged stablecoins hold Treasury bills as reserves, a yield-bearing stablecoin makes its holder, indirectly, a holder of US government debt – held not only as a store of value, but as an investment asset.

And individual portfolio choices aggregate into systemic effects. Research finds that a USD 3.5 billion inflow into dollar-backed stablecoins lowers three-month Treasury bill yields by around 2.5-3.5 basis points under normal conditions, with the effect more than doubling in periods of Treasury bill shortages.[7]

The second function of stablecoins is technological.

It is about how transactions are executed and settled within emerging financial infrastructure.

Digital innovation in recent years has made it possible for financial assets to migrate onto distributed ledger technology (DLT), allowing real-world assets to be tokenised – represented as digital tokens on programmable blockchains.[8]

As trading and ownership move onto these platforms, a new requirement emerges: transactions need a settlement asset that can operate natively within the same environment.

Stablecoins have naturally filled this role. They have become the default cash leg for so-called atomic settlement – the simultaneous exchange of two assets within a single transaction, where either both sides settle instantly or neither does. This removes settlement risk by design.

This function requires a stable unit of value on-chain. Most crypto-assets are too volatile to serve this purpose. By anchoring their value to fiat currencies and backing it with liquid reserves, stablecoins are, for now, the only instruments able to perform this role reliably at scale. In effect, they act as the system's native "cash".

The importance of this becomes clearer when contrasted with existing financial infrastructure. Today, securities transactions often settle over multiple days, require reconciliation across fragmented ledgers, and tie up collateral for longer than necessary.

Distributed ledgers compress these processes into a single environment, where issuance, trading, settlement and custody can occur continuously. Activities that once required manual coordination – such as coupon payments, margin calls and collateral movements – can instead be executed automatically through code.

Adoption is already accelerating. Tokenised money market funds whose shares are issued as tokens on DLT, deployable as collateral in derivatives and repo markets, roughly doubled in market capitalisation in 2025, reaching around €7 billion, outpacing growth in both stablecoins and traditional money market funds.[9]

Taken together, these developments reveal a technology that is doing two distinct things at once – reshaping monetary demand and transforming settlement infrastructure – in ways that blur the boundary between them. That blurring is precisely what makes the current policy debate so difficult to navigate. And it is where Europe risks going wrong.

Does Europe need stablecoins?

With close to 98% of stablecoins denominated in US dollars,[10] and with the United States now moving to entrench that position through legislation, the growing argument is that Europe must match the US model to remain competitive.

But that framing rests on the confusion I have just described. It treats one instrument as if it performs one function.

But when we examine each function separately, the case for adoption looks less compelling. Let me take each in turn, beginning with the monetary function.

The monetary function

Euro-denominated stablecoins, operating within the framework already established by MiCAR, could generate additional global demand for euro area safe assets.[11] If that demand were to grow – driven by buyers outside the euro area, with reserves channelled into safe assets – sovereign yields would compress, financing conditions would ease, and the international reach of the euro would be extended through a new digital channel. In the short term, the proposition looks like a tailwind.

But these stablecoins need to be assessed alongside the trade-offs they would create, at least two of which are material.

The first concerns financial stability. Stablecoins are private liabilities whose stability depends on the credibility and liquidity of their backing. When confidence holds, they function as intended. But when it weakens, the demand for redemption can become sudden and self-reinforcing.

This is not hypothetical. When Silicon Valley Bank collapsed in March 2023, Circle disclosed that USD 3.3 billion of USD Coin’s reserves were held there. USD Coin briefly traded at USD 0.877, more than 12 cents below its promised par.

At scale, such dynamics can transmit stress to the underlying asset markets. The promise of par redemption depends on the very market confidence that can vanish when financial stability deteriorates – and a mass redemption can accelerate that deterioration. As stablecoin use grows, so too does the potential for feedback loops between redemptions and asset markets,[12] particularly where issuers are non-banks.

Multi-issuer schemes add a further layer of vulnerability. Where the same stablecoin is issued jointly by EU and non-EU entities, MiCAR’s safeguards reach only the EU issuer. In a run, investors will naturally seek to redeem where protections are strongest – which is likely to be the EU, where MiCAR also prohibits redemption fees. But the reserves held in the EU may not be sufficient to meet such concentrated demand. We know the dangers. And we do not need to wait for a crisis to prevent them.

The second trade-off concerns monetary policy transmission.

The ECB's ability to maintain price stability depends on interest rate decisions reaching firms and households through the banking system. When retail deposits migrate into non-bank stablecoins and

return to banks as wholesale funding, that channel narrows. Banks lend less, or less efficiently, and the pass-through from policy rates to the real economy weakens.

ECB research has found that in the euro area, where banks remain the dominant source of credit to the real economy, large-scale deposit substitution would weaken lending to firms and the transmission of monetary policy.[13] In the United States, where firms have broad access to capital markets, this effect may matter less: a contraction in bank lending could potentially be more easily absorbed.

Taken together, these trade-offs are significant. They outweigh the short-term gains in financing conditions and international reach that euro-denominated stablecoins might provide. If we want to strengthen the international appeal of the euro, stablecoins are not an efficient way of doing so.

The best solution remains the same: more integrated capital markets through the savings and investments union, and over time a safe asset base that matches the scale of our ambitions for the euro's international role.

The technology function

Nonetheless, the technology that stablecoins make accessible is genuinely transformative.

DLT makes it possible to build shared, cross-jurisdictional financial market infrastructure from the ground up – issuance, trading and settlement on a single platform, accessible across borders without relying on a maze of legacy intermediaries.

For Europe, that opportunity is especially compelling. Our financial market infrastructure remains one of the most fragmented in the world. In 2023 there were 295 trading venues, 14 central clearing counterparties and 32 central securities depositories across the EU, compared with two clearing houses and a single central securities depository in the United States. DLT offers a real path towards integration.

For that reason, the prospect of rapid dollar stablecoin uptake in European tokenised markets is a legitimate concern that risks entrenching dollar dependency at the level of settlement infrastructure itself.

The answer, however, does not lie in rejecting technology or discouraging stablecoins altogether. Instead, we must build the public infrastructure that will enable alternative instruments, such as stablecoins and other forms of tokenised money, to operate within a framework anchored by central bank money.

On its own, the stablecoin model has two structural weaknesses as a foundation for settlement.

The first is fragility. A key benefit of tokenised financial markets is atomic settlement, but that guarantee is only as strong as the instrument that serves as cash within the system.

As stablecoins can break away from their peg during times of stress, they do not confer the unconditional finality that central bank money does.[14] At stake is the singleness of money, the principle that a unit of currency has the same value regardless of who issues it. A settlement layer built on private stablecoins risks weakening that principle.

The second is fragmentation. The promise of tokenised finance is a single, interoperable environment[15], but if settlement relies on stablecoins, that environment fragments across however many competing

instruments the market produces. Consequently, we end up with multiple platforms and no common anchor for convertibility. A Eurosystem survey has confirmed that the absence of a widely accepted tokenised cash settlement asset has already acted as a material constraint on the adoption of tokenisation in Europe.

While these are weaknesses of the instrument itself, they are not arguments against private tokenised money as part of a broader ecosystem. Tokenised commercial bank deposits, for example, offer another route, as they carry the credit quality of regulated institutions, can circulate on DLT platforms and may in time prove preferable to stablecoins for many wholesale use cases.

Regardless of which instrument will prevail, the public infrastructure must be in place to ensure safety and interoperability across the system.

This is what the Eurosystem is building.

As of September, we will offer wholesale settlement through the Pontes project, linking distributed ledger platforms to TARGET, our existing settlement system, ensuring that DLT-based transactions can be settled in central bank money from day one. The tests conducted in 2024 showed that this approach works in real-world conditions, with 50 transactions across nine jurisdictions and around €1.6 billion in settled value. [16]

The Appia roadmap published in March goes even further, and sets out the path to a fully interoperable, European, tokenised financial ecosystem by 2028.[17]

Dollar-denominated stablecoins have, through first-mover advantage and network effects, already become the default settlement asset in tokenised finance. When central bank money is available natively on-chain, and when tokenised deposits and MiCAR-compliant euro instruments can operate within the same interoperable environment, market participants will have no reason to rely on a foreign private substitute by default.

Conclusion

Let me conclude.

The question I posed at the outset was whether we need stablecoins to obtain the benefits they are said to provide, or whether we are mistaking the instrument for the outcome. The answer, I have argued, depends on the function.

For the monetary function, the foundations have to come first: deeper and more integrated capital markets, and a safe asset. Stablecoins cannot build those foundations for us, and without them, euro-denominated stablecoins could risk amplifying the very vulnerabilities we are trying to overcome.

For the settlement function, the key question is less about which private instrument will prevail – be it stablecoins, tokenised deposits or a yet-to-emerge alternative – and more about whether a common anchor is in place. That’s why we are placing central bank money at the heart of this new infrastructure.

I began my speech with Seneca, who said that no wind is favourable to one who does not know the port. Let me end there too.

Europe knows which port it is sailing to. Our task is not to replicate instruments developed elsewhere, but to build the foundations and the infrastructure that serve our own objectives, so that we can harness the benefits of innovation without importing the fragilities.

Thank you.

1.

White House (2025), "Fact sheet: President Donald J. Trump signs GENIUS Act into law", *press release*, 18 July.

2.

Commodity-backed and other asset-backed variants exist but remain a small fraction of the market.

3.

Kosse, A., Glowka, M., Mattei, I. and Rice, T. (2023), "Will the real stablecoin please stand up?", *BIS Papers*, No 141, Bank for International Settlements, November.

4.

Eichengreen, B. (2026), *Money Beyond Borders: Global Currencies from Croesus to Crypto*, Princeton University Press, March.

5.

Higginson, M. et al. (2026), "Stablecoins in payments: what the raw transaction numbers miss", *Financial Services Insights*, McKinsey & Company, 18 February.

6.

Reuter, M. (2025), "Decrypting Crypto: How to Estimate International Stablecoin Flows", *IMF Working Papers*, Vol. 25, No 141, International Monetary Fund, 11 July.

7.

Ahmed, R. and Aldasoro, I. (2025), "Stablecoins and safe asset prices", *BIS Working Papers*, No 1270, Bank for International Settlements, May.

8.

Tokenised traditional assets remain a small fraction of global capital markets but have grown rapidly. Those on public blockchains stood at only USD 5.5 billion at the end of the first quarter of 2025 and had grown roughly five times to about USD 27 billion a year later.

9.

Born, A., Grill, M., Lambert, C., Schöller, V., Staunton, D. and Tskhakaya, A. (2026), "Tokenised money market funds: new technology, familiar risks?", *Macroprudential Bulletin*, Issue 33, ECB, April.

10.

Aldasoro, I., Frost, J. and Ito, H. (2026), "The impact of stablecoins on the international monetary and financial system", *BIS Papers*, No 170, Bank for International Settlements, May.

11.

The Regulation requires stablecoin issuers to hold at least 30% (60% for significant issuers) of their reserve assets with credit institutions, while the remainder must consist of low-risk, highly liquid financial instruments, such as sovereign bonds.

12.

Ferrari Minesso, M. and Siena, D. (2026), "Private money and public debt. US stablecoins and the global safe asset channel", *Working Paper Series*, No 3174, ECB, January.

13.

Altavilla, C., Boucinha, M., Burlon, L., Adalid, R., Fortes, R. and Maruhn, F. (2026), "Stablecoins and monetary policy transmission", *Working Paper Series*, No 3199, ECB.

14.

Across major trading venues, the two dominant stablecoins usually trade within 1% of the dollar value, but prices can diverge sharply during stress episodes, with USD Coin falling to about USD 0.87 in March 2023 and Tether to about USD 0.90 on some platforms in October 2018. In January, "demand for USDT surged due to the US attack on Venezuela, causing the token to trade as high as roughly USD 1.40 on some peer-to-peer exchanges". See CNBC (2026), "Venezuela shows how locals turn to Tether-issued USDT stablecoin as governments wobble", 19 January.

15.

Song Shin, H. (2025), "Tokenomics and blockchain fragmentation", *Working Paper Series*, No 1335, Bank for International Settlements, March.

16.

European Central Bank (2025), "Exploratory work on new technologies for wholesale central bank money settlement".

17.

European Central Bank (2025), "Appia".

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