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Building a Competitive European Market for Stablecoins

by **Franco Passacantando**

Dollar-denominated stablecoins are growing rapidly and almost entirely dominating the market of stablecoins. The European Central Bank (ECB) is responding to the threat of dollarisation of the European tokenised financial system by introducing central bank digital currencies, for retail and wholesale transactions, and creating a platform that would connect private providers of crypto services. However, European initiatives regarding stablecoins and tokenised commercial bank deposits are still very limited. Impediments to the development of digital money derive also from the absence in Europe of a common short-term safe asset. The creation of a European competitive market for stablecoins will require a mix of regulatory reforms and ECB initiatives, regarding the access of stablecoin issuers to central bank reserves and, possibly, the creation of new central bank debt instruments.

When first introduced, stablecoins were confined to the niche market of cryptocurrencies. They are now attracting the attention not only of crypto enthusiasts but also of a growing number of commentators, academics, representatives of financial institutions and policy makers, who have been impressed by the stellar growth of dollar denominated stablecoins.

The reason of this interest is that stablecoins, by applying blockchain technology, can bypass traditional bank intermediaries and, by being backed by highly liquid instruments, mostly US Treasury bills, can preserve the stability of their value, unlike other highly volatile forms of cryptocurrencies. This model of decentralised finance has revived discussions on private monetary systems, reminiscent of the free banking era and on the merits of narrow banking.[1]

Stablecoins have also acquired an important geopolitical dimension, as the current US Administration considers them a key instrument to strengthen the international role of the dollar and

Franco Passacantando *is Scientific Advisor at the Istituto Affari Internazionali (IAI).* *The author thanks Francesco Anerise, Costanza Bufalini, Matteo Bursi, Christophe Diederen, Francesco Insabato, Lorenzo Bini Smaghi and Sebastien Van Campenhoudt for suggestions and comments to an earlier draft.*

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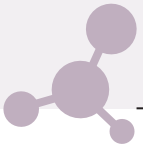
[1] Free banking was an historical experiment which developed mostly in the US before 1864 when money was created by commercial banks competing among themselves in the absence of a central bank. Narrow banking is a proposal to prevent banks from lending to the private sector and limit their activities only to investments in safe assets. See Rosa, Brunello and Casey Larsen, *Smart Money*, London, Bloomsbury, 2024.



Euro-denominated stablecoins accounted for only 0.3 per cent of the total

facilitate the funding of the US debt. In July 2025, under pressure from the administration, the US Congress has approved the GENIUS Act,[2] which has provided regulatory clarity by requiring to back stablecoins with one-to-one reserves of cash or short-term Treasurys and disclose their reserves monthly.

The market capitalisation of stablecoins increased from 204.5 billion dollars in January 2025 to around 303 billion dollars in June 2026 and was almost entirely dominated by the United States. Euro-denominated stablecoins accounted for only 0.3 per cent of the total. Not only is the euro area almost totally absent from this market, but the main European coin, EURC – which holds almost 50 per cent of the European market – is owned by the US company Circle.

1. Use cases for stablecoins

Some European initiatives have recently been taken, such as SG Forge issued by Société Générale. Others are being planned, including the Qivalis consortium that groups together 37 European banks. One of the drivers is the growing use of stablecoins in at least three areas of great interest for Europe, unrelated to other cryptocurrencies:

- *Peer-to-peer transactions*: While traditional banking instruments rely on complex correspondent banking networks, digital money based on distributed ledger technology (DLT) offers 24/7 services. According to a recent survey, the most rapidly growing segment is business-to-business (B2B) followed by person-to-person (P2P).[3] This is an application particularly useful for Europe, whose currency is extensively used by non-euro area European countries and several African countries for payments and emigrants' remittances.[4]
- *Programmable money for commercial transactions*: Global trade relies heavily on payments executed under specific conditions, defined in the so-called "smart contracts". For instance, stablecoins can trigger payments automatically when shipping documents or bills of lading are verified on the ledger. This is again a very promising application for Europe, whose economy depends heavily on global value chains.

[2] US Senate, *S.1582 - GENIUS Act*, 18 July 2025, https://www.congress.gov/bill/119th-congress/senate-bill/1582.

[3] Artemis, *Stablecoin Payments from the Round Up*, October 2025, https://reports.artemisanalytics.com/stablecoins/artemis-stablecoin-payments-from-the-ground-up-2025.pdf. The countries originating the bulk of stablecoin transactions are USA, Singapore, Hong Kong, Japan, UK and Germany.

[4] Georgiadis, Georgios et al., "The Euro as an Invoicing Currency for Global Trade", in ECB, *The International Role of the Euro*, June 2021, p. 64-68, https://www.ecb.europa.eu/press/other-publications/ire/html/ecb.ire202106~a058f84c61.en.html#toc20.

- *Settlement asset for the fast growing market of tokenised digital assets*: Digital tokens are a representation of assets on a digital ledger. Securities, mutual funds and the so-called real-world assets, including physical properties, commodities, even gold and works of art, are increasingly being "tokenised". They encode information about the asset, the legal rights and obligations associated with it and the rules governing the operation. This makes it possible to automate the life cycle of a security and associated services such as issuance, trading, settlement, coupon payments, margin calls and collateral management. Stablecoins can serve as the cash leg for settling tokenised assets. Since the two sides of the transaction reside in the same DLT environment, they can be exchanged and settled instantaneously – so called atomic settlement – thereby removing settlement risks.[5]

Europe has already become one of the largest users of stablecoins, though mostly foreign ones given the scarcity of euro denominated alternatives

As shown in Figure 1, Europe has already become one of the largest users of stablecoins, though mostly foreign ones given the scarcity of euro denominated alternatives.[6] This illustrates both the potential use case for a European stablecoin and the risk that this market could end up entirely dollar-denominated.[7] More important is the risk that Europe misses the opportunities offered by the growing market of tokenised finance. Financial markets in securities denominated in currencies different from that of the country where the security is issued are of course not a new phenomenon: the Eurodollar bonds market is one of the largest in the world. European investors may be attracted by tokenised financial markets, even if dollar-denominated, also because long-term investors are less sensitive to exchange rate risks than short-term investors.

An analogy has also been made between stablecoins and Eurodollars – liquid deposits in dollars held in Europe for transaction purpose – which reached a valuation of over twelve trillion dollars before the great financial crisis of 2007-2008 when requests for repatriation forced the Federal Reserve to create large swap facilities to supply dollars to European counterparts through the European Central Bank (ECB).[8]

[5] Banu, Elena et al., "Towards an Efficient and Integrated Digital Capital Market in Europe: The Role of Tokenisation", in *Macroprudential Bulletin*, No. 33 (April 2026), https://www.ecb.europa.eu/press/financial-stability-publications/macroprudential-bulletin/html/ecb.mpbu202604_02.en.html.

[6] Laboure, Marion, *Stableblecoins: The Pros and Cons*, presentation at the 14th ILF Conference on the Future of the Financial Sector, 27 January 2026, https://www.ilf-frankfurt.de/fileadmin/user_upload/Slides_Marion_Laboure.pdf.

[7] Reichlin, Lucrezia et al., "A New Strategy to Contain Stablecoin Risks in the European Union", in *Bruegel Policy Briefs*, No. 09/2026 (20 May 2026), https://doi.org/10.64153/DJVH1377.

[8] Aldasoro, Iñaki et al., "On Par: A Money View of Stablecoins", in *BIS Working Papers*, No. 1146 (November 2023), https://www.bis.org/publ/work1146.htm.

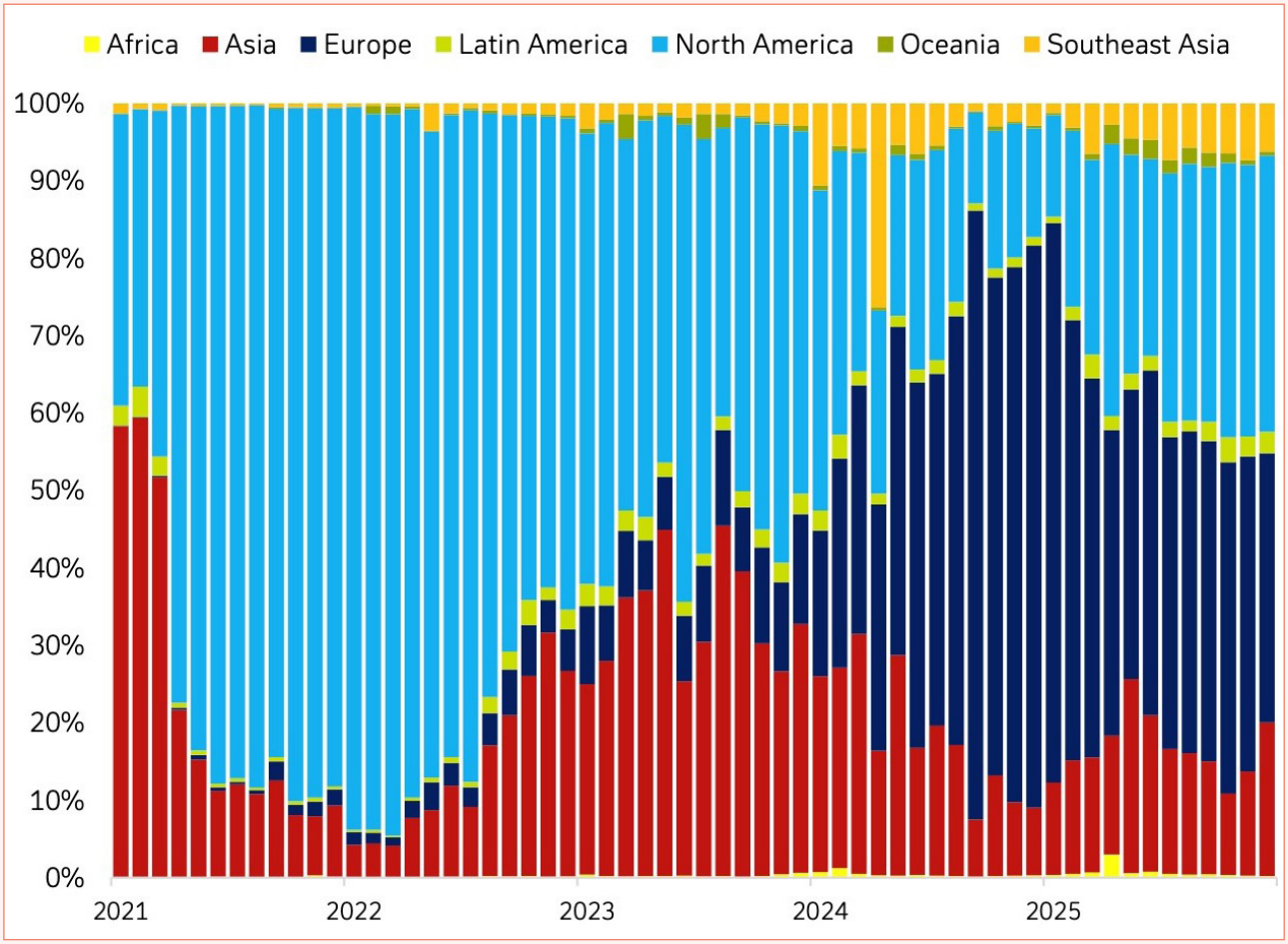


Figure 1 Adjusted stablecoin transactions by region

Note: Deutsche Bank Research, Artemis Analytics. Timezone based analysis looking at Ethereum and Solana.

Source: Laboure, Marion, *Stableblecoins: The Pros and Cons*, cit., p. 6.

2. Digital money architecture: The ECB approach

How is Europe responding to these challenges? As noted, the US approach relies almost entirely on private-sector solutions for digital payments innovation and the current Trump Administration has explicitly prohibited any initiative to develop central bank digital currencies.[9] China, at the opposite end, has been at the forefront among central banks promoting a Central Bank Digital Currency (CBDC) and has banned the use of stablecoins – while still maintaining a foothold in this sector through Hong Kong. The ECB recently presented its plans in its payments' system strategy.[10] Digital central bank money will be provided for both retail and wholesale

[9] CBDCs are considered as a threat to "the stability of the financial system, individual privacy, and the sovereignty of the United States". See White House, *Strengthening American Leadership in Digital Financial Technology*, 23 January 2025, https://www.whitehouse.gov/presidential-actions/2025/01/strengthening-american-leadership-in-digital-financial-technology.

[10] European Central Bank, *The Eurosystem's Comprehensive Payments Strategy*, 31 March 2026, https://www.ecb.europa.eu/press/pubbydate/2026/html/ecb.eurosystemcomprehensivepaymentsstrategy202603.en.html.

The ECB recently presented its plans in its payments' system strategy

uses, respectively through the digital euro and through the projects Pontes and Appia, which are discussed below.

Commentators often present the digital euro as the European alternative to stablecoins. However, the two instruments are completely different. In its current design, the use of the digital euro will be limited to small retail transactions and will not function as programmable currency. While it is an important instrument to preserve European strategic autonomy, it is not the only or even the primary one.[11]

Equally, if not more, important are the ECB's initiatives on wholesale digital currency, that is, the component available for banks, financial intermediaries and other significant actors. The main initiative is Pontes, a DLT platform connected to TARGET, and the Eurosystem wholesale interbank settlement system, designed to enable settlement in central bank money for tokenised financial assets. The ECB consider Pontes a bridge between market DLT platforms and the TARGET services, allowing DLT-based transactions to settle in central bank money.

In the longer term, the ECB will launch the Appia programme – due by 2028 – which will operate as a European "shared ledger", on which tokenised central bank money will be used as a settlement instrument for a plurality of tokenised assets.[12] While Appia is still in its initial design phase, Pontes will be launched in the third quarter of 2026, initially allowing major market infrastructures such as central securities depositors and banks to connect directly.

In essence, the ECB is pursuing two objectives: first, to provide central bank money as a risk free digital settlement medium, which should enhance users' confidence in the preservation of the value of e-money tokens in the official currency in case of redemption. Second, to ensure "interoperability" among different instruments, through the ECB's DLT platform with goal of addressing fragmentation in the digital ecosystem. At present, a multiplicity of initiatives makes it difficult to operate and move liquidity across different platforms. The market is responding to the need for interoperability and connection among several platforms and different blockchains have already been created.[13] However no single "network of networks" is emerging

[11] One of the objectives of the digital euro is to promote the strategic autonomy of the Europe which still heavily relies on US instruments and card networks. To this end it has developed a centralised Digital Euro Service Platform (DESP), based on European technology, which hosts the settlement engine and could be used for front-end applications by private actors.

[12] Attinger, Barbara et al., "O Brave New World, That Has Such Digitalisation in It", in *Macroprudential Bulletin*, No. 33 (April 2026), https://www.ecb.europa.eu/press/financial-stability-publications/macroprudential-bulletin/html/ecb.mpbu202604_01.en.html.

[13] One of the most important is Chainlink. See the official website: https://www.alchemy.com/dapps/chainlink.

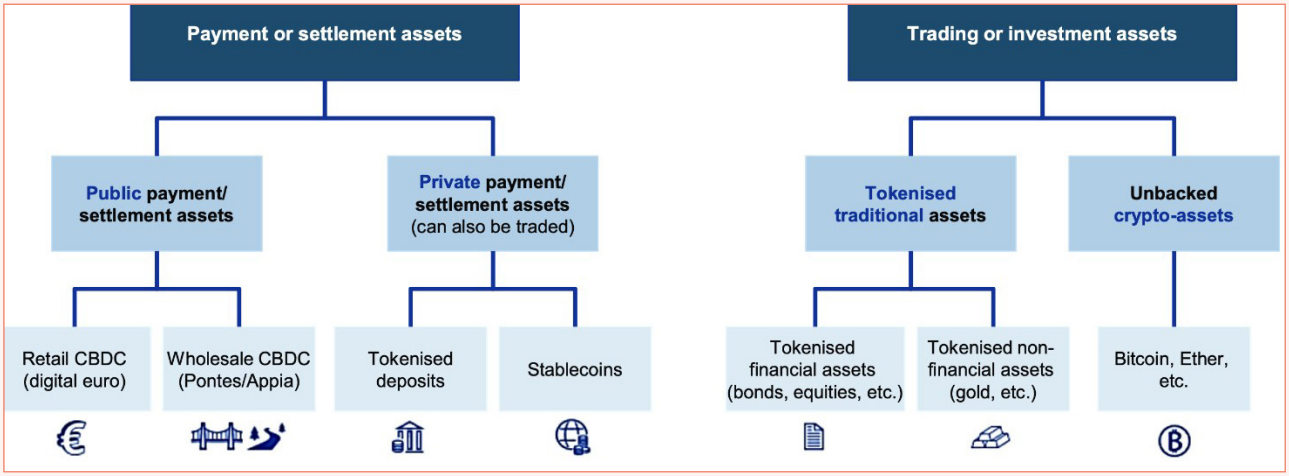


Figure 2 The digital assets landscape

Source: Attinger, Barbara et al., "O Brave New World, That Has Such Digitalisation in It", cit.

and, if one did, it would raise fundamental questions about how to prevent a private global monopoly from gaining a dominant position or how to regulate it. This is not a remote possibility, given the strong network externalities in wholesale payments.

In the digital architecture envisaged by the Eurosystem (Figure 2), public money is seen as complementary to private money – not only because they serve different purposes but also because they are designed to reinforce each other. In principle, Pontes could enable private innovation while private operators, by connecting to it, could enhance its role as a common platform for settlements in central bank money.

3. Open policy choices

3.1 Stablecoins vs. tokenised deposits

The ECB strategy acknowledges that business and operational models should come from the market itself, and that the success of its strategy will depend on the capacity of the private sector to innovate.[14] However, as already seen, initiatives regarding crypto-asset service providers (CASPs) remain limited. According to the ECB President Christine Lagarde the DLT technology underlying stablecoins could greatly transform financial markets but if "we want to strengthen the international appeal of the euro, stablecoins are not an efficient way of doing so" mainly because of the financial stability risks they pose and their potential negative impact on monetary policy transmission

[14] Cipollone, Piero, *Building the Rails for Europe's Tokenised Financial Markets*, Keynote speech at an event on "Building Europe's integrated digital asset ecosystem: from vision to implementation", Brussels, 23 March 2026, https://www.ecb.europa.eu/press/key/date/2026/html/ecb.sp260323~a88f20c049.en.html.

mechanisms.[15] Instead she highlights tokenised commercial bank deposits as superior alternatives and the need to integrate European capital markets through the Savings and Investment Union.

Tokenised bank deposits are digital representations of commercial bank deposits issued on DLT. Being backed by the entire balance sheet of the bank, they would enjoy the "credit quality" of regulated traditional bank deposits and would also benefit of standard safeguards, like lending of last resort. In the United Staes, JP Morgan has launched its tokenised deposit, JPM Coin, and together with the largest American banks is planning to launch a tokenised deposit network next year to respond to the competitive pressure from stablecoins.[16] In Europe, tokenised deposits still remain at an early stage of development, largely limited to pilot projects with restricted circulation. Some concerns have also been raised about the ambiguity of their prudential treatment.[17] It is revealing that major European banks, like Société Générale and those belonging to the Qivalis consortium, have chosen the option of designing a stablecoin rather than tokenised deposits.

The European Commission has recently opened a consultation for the revision of the Markets in Crypto-Assets Regulation (MiCAR)

The European Commission has recently opened a consultation for the revision of the Markets in Crypto-Assets Regulation (MiCAR), in light of the rapid evolution of market initiatives and the changing global regulatory landscape. A measure that would increase the competitiveness of the European stablecoin market would be to allow greater share of reserves of CASPs in sovereign assets.[18] The current provision to hold a high share of these reserves in bank deposits reduces the capacity to diversify risks and lowers issuers' profitability because yields on bank deposits are typically lower than those of bonds. Furthermore, contrary to what is often argued, it does not help preserving the capacity of the banking system to finance the real economy because bank deposits used as reserves cannot be backed by loans but only by short-term highly liquid assets.[19]

The revision of MiCAR could also be an opportunity to address

[15] Lagarde, Christine, *Stablecoins and the Future of Money: Separating Functions from Instruments*, Speech at the Banco de España LatAm Economic Forum, Roda de Bará, 8 May 2026, https://www.ecb.europa.eu/press/key/date/2026/html/ecb.sp260508~dd909fbed1.en.html.

[16] Heeb, Gina and Vicky Ge Huang, "JPMorgan, Citi and Big Banks Plan New Tokenized Deposit System to Answer Crypto", in *The Wall Street Journal*, 4 June 2026, https://www.wsj.com/finance/banking/jpmorgan-citi-and-big-banks-plan-new-tokenized-deposit-system-to-answer-crypto-6b2d696b.

[17] Zatti, Filippo, "Navigating Technological Neutrality: The Challenge of Tokenized Bank Deposits and the Regulatory Framework of MiCAR", in Maria-Teresa Paracampo (ed.), *Beyond MiCA. An Overview of Developments on Crypto-Assets*, Turin, Giappichelli, 2025, p. 83-104, https://flore.unifi.it/handle/2158/1442115.

[18] Reichlin, Lucrezia et al., "A New Strategy to Contain Stablecoin Risks in the European Union", cit.

[19] Bindseil, Ulrich, "Regulatory Responses to the Financial Stability Implications of Stablecoin", in *SAFE Working Papers*, No. 470 (February 2026), https://hdl.handle.net/10419/338085.

the regulatory ambiguities still surrounding the tokenisation of commercial deposits. An optimal configuration would be to ensure that stablecoins and tokenised deposits are allowed to compete on equal footing.

3.2 Access of stablecoin issuers to central bank reserves

One of the two pillars of the ECB strategy is to ensure settlement in central bank money also for wholesale transactions

One of the two pillars of the ECB strategy is to ensure settlement in central bank money also for wholesale transactions. For this purpose, a link will be created between the DLT environment, where the providers of crypto services operate, and central bank accounts. However, in order to settle in central bank money, stablecoin issuers should also have open access to a money market in which to borrow or lend liquidity in central bank money. In moments of market distress, they should also have access to some source of emergency liquidity assistance. Several options are being considered in various jurisdictions.

One, currently proposed in the UK, would be to give systemically important stablecoin issuers direct access to central banks accounts and to require them to hold a minimum amount of reserves in central bank money.[20] They would also have access to a collateralised backstop liquidity facility from the Bank of England. Another option, recently being tested in the United States, would be to give stablecoin issuers some form of banking license or the possibility of being incorporated in banking groups.[21] In this way, stablecoin issuers would participate in money markets and have access to central bank liquidity facilities, in the same way as other banks. A third option, currently being followed in Europe, is for non-bank CASPs to use a third-party bank. CASPs can exchange stablecoins for liquidity from partner banks, which, in turn, trade liquidity with other banks and have access to central bank facilities.

The merit of the European approach is that it does not imply major changes in regulatory and supervisory practices and preserves the current monetary policy transmission mechanisms, based on the relationship between central bank money and commercial bank money. It remains to be seen whether it places-non bank CASPs at a competitive disadvantage with respect to other crypto service providers from an operational point of view because of

[20] Bank of England, *Sterling-denominated Systemic Stablecoins. Policy Statement and Consultation on Draft Code of Practice*, 22 June 2026, https://www.bankofengland.co.uk/paper/2026/ps/sterling-denominated-systemic-stablecoin.

[21] Recently in the US Circle has been given the license to operate as a special "trust bank" which is not allowed to manage bank deposits, but which will allow to manage reserves on behalf of the stablecoin. See Macheel, Tanaya, "Stablecoin Issuer Circle Just Got the Greenlight to Operate as a Bank. The Shares Are up 5%", in *CNBC*, 10 July 2026, https://www.cnbc.com/2026/07/10/circle-gets-an-occ-bank-charter-as-stablecoin-competition-heats-up-shares-surge-14percent.html.

the complexities of connecting the DLT environment with the traditional "legacy" settlement system. One can assume that when Pontes and Appia become operational these complexities will be addressed.[22] More relevant are the liquidity and stability risks that the interconnection between the crypto world and the regulated financial system would generate, especially in periods of financial stress. On such occasions, requests for redemption in the crypto market could trigger withdrawals of liquidity from the partner banks. In the opposite direction, liquidity shortfalls in partner banks could result in restrictions of credit lines for CASPs. These risks could be mitigated by contractual arrangements between the crypto service providers and the partner banks, such as the creation of fully collateralised contingent liquidity facilities. However, history shows that when market liquidity evaporates, collateral also suddenly loses value and only the intervention of central banks can restore confidence in financial markets.

Certainly, the access of stablecoin issuers to central bank reserves and backstop facilities would have major moral hazard and regulatory implications and would also expose the ECB to reputational risks. However, it is an option that cannot be ignored as a natural extension of the policy measure, already adopted, to allow settlement in central bank more for stablecoin issuers and as a measure to enhance the stability and competitiveness of European digital financial markets.

4. Stablecoins and European debt markets

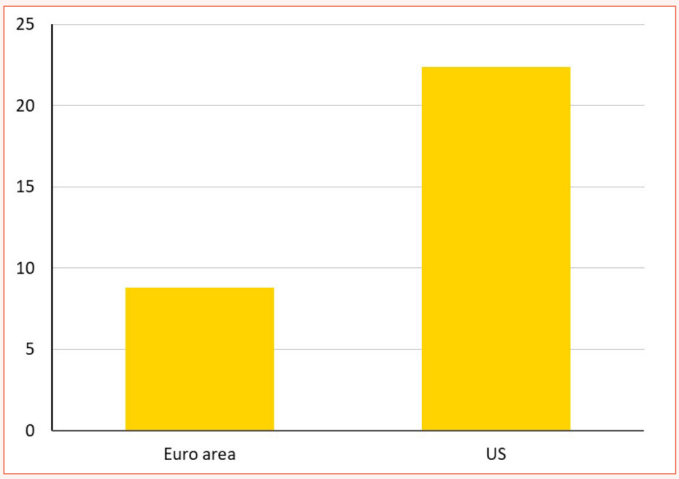
How to adapt the composition of the European debt market to the needs of the crypto-asset world?

One aspect that has not received adequate attention is how to adapt the composition of the European debt market to the needs of the crypto-asset world. One of the main drivers of stablecoins' success in the United States has been their link to a deep and highly liquid Treasury bill market, which reinforces users' confidence in stability of values and redemption and provides issuers a steady and safe flow of interest income. Stablecoin issuers have indeed become some of the largest holders of US public debt.[23] This has had a positive impact on Treasury funding costs.[24]

[22] As envisaged by the DLT Pilot regime, which provides the legal framework for trading and settlement of transactions in crypto-assets, the access will be provided by a third party, the so called DLT market operator which will address the technical issue of bridging the legacy TARGET2 with blockchain platform operators. See ESMA website: *DLT Pilot Regime*, https://www.esma.europa.eu/esmas-activities/digital-finance-and-innovation/dlt-pilot-regime. Experimentations are also being conducted to allow central bank money to be issued in the form of tokens circulating on a DLT platform.

[23] This positive impact of stablecoins on debt markets has probably been over-emphasised because stablecoins have to some extent substituted bank deposits, money market funds and cash held abroad which directly or indirectly were also investing in Government bonds.

[24] As mentioned by Lagarde, a 3.5 billion dollars inflow into dollar-backed stablecoins



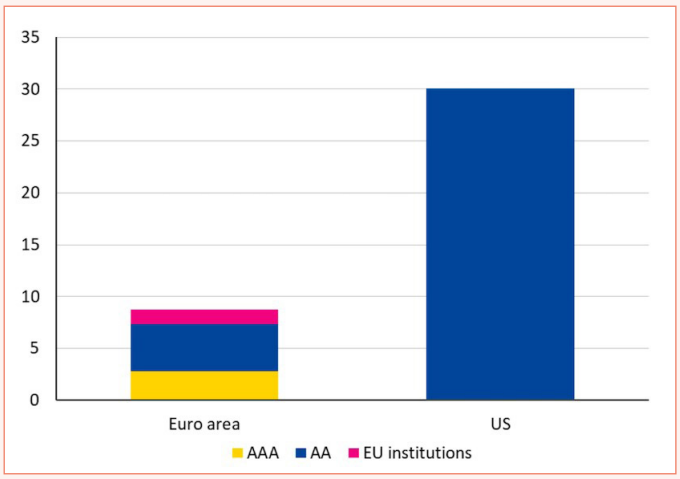


Figure 3 (left) Short-term safe assets in the euro area and the United States (%)

Figure 4 (right) Government safe assets in the euro area and the United States (%)

Note: Euro area refers to a subsample of EU countries with rating similar or higher than the United States: Austria, Belgium, Finland, France, Germany, Ireland, Luxembourg and the Netherlands.

Source: Cheng, Gong and Stefano Finesi, "Europe in the Global Stablecoin Debate", cit., p. 30-31.

It will be considerably more difficult for Europe to benefit from a similar positive feedback loop between stablecoins and debt markets, for various reasons.

First, the share of short-term debt over total public debt is much smaller in the EU than in the United States and there is no real equivalent to the US Treasury bill (Figure 3).[25] Most debt management offices in Europe pursue a strategy of lengthening the maturity of public debt, because, from a debt management perspective, longer-duration debt reduces refinancing risk and vulnerability to short-term interest rate volatility. The European Commission, the International Monetary Fund (IMF) and rating agencies have traditionally supported this strategy.

Second, the stock of European safe assets is much smaller than in the United States. According to a study of some economists of the European Stability Mechanism (ESM), even if one adds to the EU bonds those of the European Investment Bank (EIB), the ESM and sovereign issuers with a rating equal or higher than the United States, the stock of safe assets in Europe is three times smaller than in the United States (Figure 4).[26]

Third, European securities markets are still significantly divided along national lines, in terms of debt ratings. A stablecoin issuer looking for assets as safe as those of the United States to back its tokens would have to pick only those of the countries – Austria,

lowers three-month Treasury bill yields by around 2.5-3.5 basis points under normal conditions. See Lagarde, Christine, *Stablecoins and the Future of Money*, cit. See also Ahmed, Rashad and Iñaki Aldasoro, "Stablecoins and Safe Asset Prices", in *BIS Working Papers*, No 1270 (May 2025), https://www.bis.org/publ/work1270.htm.

[25] Cheng, Gong and Stefano Finesi, "Europe in the Global Stablecoin Debate: Risks and Opportunities", in *ESM Discussion Papers*, No. 27 (May 2026), p. 31, https://doi.org/10.2852/3757924.

[26] Cheng, Gong and Stefano Finesi, "Europe in the Global Stablecoin Debate", cit., p. 30.

In periods of financial distress, the financial condition of the issuer of stablecoin could deteriorate because of the downgrading of some components of its portfolio

Belgium, Finland, France, Germany, Ireland, Luxembourg and the Netherlands – with a rating equal to or above that of the United States. The first implication is that the debt of lower-rated countries would benefit less from stablecoin demand. A second, more important one is that in periods of financial distress, the financial condition of the issuer of stablecoin could deteriorate because of the downgrading of some components of its portfolio.

The MiCAR provision requiring a high share of reserve assets to be held in bank deposits attenuates but does not resolve this problem, given the well-known correlation between sovereign bond ratings and the ratings of domestic banks, especially in times of financial distress.[27]

Indeed, this dynamic could ignite a double "doom loop": the downgrading of sovereign debt could lead to the downgrading of the banks of the countries where that debt is issued, and both dynamics would induce stablecoin issuers to reallocate their portfolios. A sufficiently diversified portfolio across many issuers could mitigate this risk but, in stress scenarios, CASPs would still face the dilemma of either accepting a lower credit rating or restructuring their reserve portfolios in favour of the highest-rated assets – a move that could, however, exacerbate the financial tensions by sending a damaging signal of distrust towards the countries most affected by the turbulence.

To address this problem several lines of action could be considered:

- One would be to strengthen high quality short-term European private debt. An interesting initiative going in this direction is the Banque de France-Euroclear Pythagore project to tokenise Negotiable European Commercial Paper (NEU CP).[28] The NEU CP market represents the largest short-term debt market in the euro area with 310 billion euro outstanding.
- A more ambitious initiative would be to launch a risk-free common short-term public debt instrument. In principle, the ECB has the competence and the legal powers to do so, because its statute includes provisions for the issuance of its own debt certificates.[29] As the IMF has shown, it is not unusual for central banks to issue

[27] MiCAR requires that 30 per cent of assets be held in commercial bank deposits – rising to 60 per cent for significant electronic money tokens – with the remainder in high-quality bonds.

[28] Euroclear, *Banque de France and Euroclear to Tokenise Short Term Debt in Paris*, 10 October 2025, https://www.euroclear.com/newsandinsights/en/press/2025/mr-26-banque-de-france-and-euroclear.html. The pilot phase of the project is scheduled to start at the end of 2026, in line with the start of the Eurosystem project 'Pontes'.

[29] Hardy, Daniel C., "ECB Debt Certificates: The European Counterpart to US T-bills", in *University of Oxford Department of Economics Discussion Papers*, July 2020, https://ora.ox.ac.uk/objects/uuid:2f0ae858-270e-42f2-9633-dca81eab8a04. Such certificates could be offered using standard tender procedures. See Articles 4 and 5 in European Central Bank, *Guideline (EU) 2015/510 of December 2014 on the Implementation of the Eurosystem Monetary Policy Framework*, http://data.europa.eu/eli/guideline/2015/510/2023-06-29.

securities to facilitate the development of financial markets or to widen the "range of maturities to meet the market demand for domestic currency credit-risk free assets".[30] Regarding short-term certificates, the central banks of Korea, Sweden and Switzerland already issue them. Such an initiative would greatly facilitate liquidity management both for banks, which are required to fully back the reserves of CASPs with highly liquid instruments, and for non-Bank CASPs. Tokenisation of ECB debt certificates would place them in the same ledger where stablecoins would operate, thereby greatly reducing operational costs. Politically, such an initiative could meet less resistance than the issue of eurobonds, because of the short-term maturity of the instrument and because its purpose is not to mutualise risks but to improve liquidity management in the digital ecosystem. Most likely, foreign investors would also greatly appreciate the possibility of investing in such an instrument, especially in moments of stress, as an alternative to US Treasury bills.

- It would also be important to reconsider proposals to launch synthetic safe assets as an instrument to facilitate reserve management of crypto asset service providers. The most well-known proposal is the creation of ESRB High Level Task Force on Safe Assets.[31] Sovereign bond-backed securities (SBBS) would be created through private contracts and would not mutualise risks because each government would remain responsible for servicing its own debt obligations. A somewhat similar proposal has recently been made by Blanchard and Ubide.[32] These and other similar proposals have been met with scepticism mostly because of doubts about the investors' demand for a synthetic asset with no secondary market.[33] The rise of stablecoins could however generate a demand of such an instrument because CASPs have no alternative but to create a synthetic-bond instrument from available assets. The choice is therefore simply whether to do so in-house or to use an externally provided instrument. The latter option would be preferable for reasons of transparency and neutrality.

[30] Gray, Simon T. and Runchana Pongsaparn, "Issuance of Central Bank Securities: International Experiences and Guidelines", in *IMF Working Papers*, No. 15/106 (May 2015), p. 5, https://doi.org/10.5089/9781513593371.001.
[31] SBBS are defined as securities with varying levels of seniority backed by a diversified portfolio of euro-denominated central government bonds. See ESRB High Level Task Force on Safe Assets, *Sovereign Bond-backed Securities: A Feasibility Study*, January 2018, https://www.esrb.europa.eu/pub/task_force_safe_assets/html/index.en.html.
[32] Blanchard, Olivier and Ángel Ubide, "Now Is the Time for Eurobonds: A Specific Proposal", in *Realtime Economics blog*, 30 May 2025, https://www.piie.com/node/17960.
[33] Gros, Daniel, "Diversification First: Why the Euro Area Does Not Need an Artificial Safe Asset", in *CEPS Commentaries*, 25 May 2018, https://www.ceps.eu/?p=10596.

Conclusion

Stablecoins could play an important role in a future European digitalised financial system but currently this market is entirely dollar-denominated. The paradox is that Europeans are the main users of US stablecoins, both as consumers and investors in dollar-denominated digital financial assets.

The ECB has ambitious plans to digitalise central bank money for ordinary citizens and for major financial players. President Christine Lagarde has articulated the ECB's ambition clearly: "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."[34]

Large European financial institutions and infrastructures are responding by adapting their traditional operating models to the digital services offered by the ECB. However, new initiatives to launch stablecoins or offer tokenised deposits remain in an initial phase of development and have received very limited official support. Without stronger private sector engagement, Europe's digital architecture could remain a policy ambition that never fully materialises. An opportunity to foster a more competitive environment is provided by the ongoing review of crypto-asset regulation.

An important component of the ECB strategy is to allow settlement in central bank money for CASPs. However, uncertainty persists regarding the access of CASPs to a market for liquidity in central bank money. Currently non-bank CASPs will have to use a third-party bank to access central bank liquidity facilities. This approach would put stablecoin issuers at a competitive disadvantage with respect to other CASPs and would imply liquidity risks both for banks and CASPs, especially in times of stress. While the current approach is the most pragmatic one for a market in its initial phase of developments, alternative or complementary approaches envisaging some forms of direct access to central bank reserves should be considered for the future.

One important measure to promote a more competitive stablecoins market would be to allow a greater share of stablecoin reserves to be held in sovereign assets. This would, however, require some adjustment to current public debt management practices in Europe and the introduction of new debt instruments. Public debt management should be better calibrated to meet growing demand for short-term instruments and proposals to introduce synthetic safe assets could be reconsidered.

Most importantly the ECB could consider issuing tokenised short-term certificates to meet the growing demand of liquid assets in the new digital ecosystem.

[34] Lagarde, Christine, *Stablecoins and the Future of Money*, cit.

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Via dei Montecatini, 17
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T +39 06 6976831
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