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Stablecoins as "Synthetic CBDCs"

Regulatory Divergence and Macro-Financial Spillovers

By

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Executive Summary

- Stablecoins are moving rapidly from the periphery of digital asset markets into the core of payment and liquidity systems. By end-2025, the total stablecoin market cap had reached approximately $300 billion — up 49% over the year — and adjusted payments volumes are projected to reach $2–4 trillion by 2030. This paper examines how four middle-power economies are responding.
- The UK is the most advanced, with a consultation explicitly proposing central bank liquidity access for systemic issuers — a step that would blur the boundary between public and private money and effectively create a synthetic CBDC.
- Canada has enacted cautious draft legislation with strict reserve and redemption rules but no central bank access provisions.
- Japan maintains the world's most restrictive bank-centric regime, which prioritises stability but may deter global issuers.
- South Korea's framework remains stalled by an institutional dispute between the Bank of Korea and the Financial Services Commission, leaving domestic issuance illegal and the market reliant on foreign stablecoins.
- This paper also examines Hong Kong and the UAE to show the contrast between a conservative, bank-led model and a hub-seeking case respectively.
- The UAE is actively positioning itself as a hub, with multiple licensing pathways and competitive capital requirements that illustrate the regulatory arbitrage dynamic this paper analyses.
- These divergences are not merely technical. They create clear incentives for regulatory arbitrage, and raise the prospect of stablecoins evolving into a eurodollar-style offshore liquidity system — transmitting foreign monetary conditions across borders, weakening domestic monetary control, and concentrating financial stability risks in permissive hub jurisdictions.
- To address these risks, the paper proposes five policy recommendations: harmonize reserves, manage offshore liquidity risks, define central bank access rules, stress-test for stablecoin runs, track flows across stablecoins/MMFs/banks, and align with CBDC strategies to avoid fragmentation.
- Without coordinated action, stablecoins may evolve into a parallel offshore liquidity system with limited transparency and uncertain crisis-management arrangements.

Key Picture: Jurisdictional Comparison of Regulatory Frameworks For Systemic Stablecoins

Jurisdiction	Reserve Rules	Issuer Requirements	Central Bank Access	Key Risks/Challenges
United Kingdom	High-quality liquid assets (HQLA)	Systemic issuers subject to prudential rules (e.g., operational resilience, redemption at par)	Under consultation (potential access for systemic issuers)	Blurring of public/private money; potential synthetic CBDC creation
Canada	1:1 backing; bankruptcy-remote structures	Bank of Canada registration; prohibition on yield; risk management and governance policies required	Not addressed in current framework	Domestically focused; limited global hub potential; reliance on traditional financial institutions
Japan	Fully backed by cash or highly liquid assets (e.g., JGBs, bank deposits); >100% reserve requirements	Licensed banks, trust companies, or registered money transfer agents; AML/KYC and Travel Rule compliance	No	Conservative and bank-centric; may deter global issuers seeking lighter regulation; limited multi-issuer provisions
South Korea	Over 100% reserve backing; segregated accounts	Proposed: 51% bank ownership for issuers; no-fault liability for operators	No	Regulatory delay until 2026; reliance on foreign stablecoins (e.g., USDC, USDT); cross-border spillover concerns
Hong Kong	Strict reserve quality and liquidity; KYC/AML compliance	Bank-led model; HKMA licensing; well-capitalised and supervised issuers (e.g., HSBC, Standard Chartered)	No	Limited to traditional financial institutions; high compliance costs may deter fintech innovation
UAE	Full 1:1 reserve backing (ADGM/FSRA); AED-denominated stablecoins reserved to CBUAE; foreign payment tokens restricted to institutional use	3-module framework; plus federal CMA licence for VASP activities. No algorithmic stablecoins or privacy tokens allowed	No	Deliberately hub-seeking architecture with multiple licensing pathways; complexity creates compliance costs but also arbitrage risks; USD peg reduces domestic monetary sovereignty concerns
EU (MiCA)	High-quality liquid assets; no yield-sharing for e-money tokens	Enhanced supervision for "significant" issuers; strict disclosure and transparency requirements	No	Multi-issuer stablecoins not addressed; euro-denominated coins at competitive disadvantage vs. USD alternatives; fragmented supervision across member states

Source: Author's compilation from cited references and footnotes (as of March 2026).

Introduction

Stablecoins are no longer just the plumbing for speculative crypto trading. These privately issued, fiat-pegged digital assets are rapidly embedding themselves into mainstream payments and global liquidity systems (FSB, 2023). Unlike volatile cryptocurrencies, stablecoins are typically pegged 1:1 to sovereign currencies (e.g., USD, EUR) or commodities, combining the efficiency of blockchain with the stability of traditional assets. While early stablecoins were mainly used in cryptocurrency asset markets and were largely unregulated, their role is quickly expanding into mainstream payments and liquidity systems.

The scale of this shift is substantial. While gross transaction volumes reached $35 trillion in 2025 according to McKinsey (2026), this figure includes significant intra-exchange activity and wash trading. After adjusting for these factors, McKinsey estimates only ~$390 billion represents the true payments volume. Similarly adjusted projections for 2030 sit in the range of **$2–4 trillion** (McKinsey, 2026) while BCG (2026) forecasts a $3 trillion market by 2030.[1] This growth is driven by increased adoption, especially in B2B settings where large-scale transactions amplify liquidity and settlement risks, and by institutional expansion into use cases like wholesale payments and cross-border settlements.[2] In terms of market capitalisation, by the end of 2025 the total stablecoin market cap had already reached approximately $300 billion, growing 49% during 2025 from $205 billion in January to $306 billion by end of November (Yahoo Finance, 2025 December 30).

In the current status quo, USD-denominated stablecoins command a market share of about 99% according to the ECB (2025, November), especially after the passing of the landmark GENIUS Act in the United States in July 2025. At the time of writing this paper, there is an ongoing debate taking place in the USA about a subsequent piece of legislation (the CLARITY Act)[3] where the extent to which stablecoins will be allowed to be yield-bearing is the main sticking point.

All this serves as the backdrop to reactions from other jurisdictions, whose regulators are accelerating efforts to develop comprehensive frameworks. Interestingly, the most proactive rulemaking is currently emerging from "**middle power**" economies—nations with independent monetary regimes and significant, though not dominant, global influence (Carney, 2026). Unlike smaller or USD-dependent economies, these jurisdictions (the UK, Canada, Japan, and South Korea) are actively designing divergent regulatory regimes, that reflect their own institutional priorities, financial structures, and policy objectives. These frameworks differ in important respects, including reserve composition, redemption rights, licensing requirements, and the treatment of multi-issuer stablecoins.[4]This fragmentation is a recipe for regulatory arbitrage. Issuers will inevitably shop for the most favourable jurisdictions, which raises questions about how stablecoin activity will evolve across borders. This paper also examines Hong Kong and the UAE as contrasting cases: a conservative bank-led model on one hand and a deliberate hub-seeking architecture on the other.

A deeper, more structural debate is also unfolding: should systemic stablecoin issuers get access to central bank liquidity? This is a decision that could fundamentally reshape the boundary between public and private money. Granting such access would enhance stability by reducing run risks (Bank of England, 2025). However, it crosses a historical red line. Backing private issuers with central bank facilities effectively creates a synthetic CBDC—a privately managed asset enjoying implicit public guarantees but lacking the strict governance of true sovereign money.

The macro-financial stakes are significant. As the BIS (2025) warns, these arrangements threaten to disrupt monetary control, sovereign debt markets, and broader financial stability. Compounding these economic risks is a glaring technical vulnerability. Many of the underlying blockchains currently lack the scalability, finality, and cybersecurity resilience necessary to support systemic financial infrastructure (Narula, 2026). During a stress event, these technical bottlenecks could severely undermine the stability promises of some of the upcoming digital currencies and amplify redemption risks.

Cross-Country Regulatory Divergence

Regulation of stablecoins is evolving rapidly across jurisdictions. This section examines the four middle-power economies[5] at the core of this paper's analysis — the UK, Canada, Japan, and South Korea — alongside Hong Kong and the UAE as contrasting cases, and the EU as a regional benchmark. Together they illustrate how divergent regulatory choices are shaping where stablecoin activity concentrates and with what consequences for financial stability.

The jurisdictions reviewed face common challenges around stablecoins, such as ensuring redemption at par, protecting reserves, and preventing destabilising runs. However their regulatory approaches vary significantly. Divergences in reserve rules, licensing policies, multi-issuer treatment, and access to central bank liquidity create incentives for regulatory arbitrage, shaping where global activity concentrates - with subsequent economic effects.

United Kingdom

The Bank of England's proposed regime for sterling-denominated systemic stablecoins places strong emphasis on operational resilience, redemption at par and high-quality liquid assets (Bank of England, 2025). If the use of these new coins would exceed certain thresholds, the issuer would be labelled as 'systemic' by HM Treasury. Systemic issuers would be subject to prudential requirements similar to those applied to systemic payment systems. Crucially, the 2025 proposal explicitly raises the possibility of granting systemic issuers access to central bank liquidity facilities, which would significantly reduce run risk but blur the boundary between public and private money. The UK framework is designed to attract responsible innovation while maintaining monetary and financial stability, positioning the country as a potential hub for regulated stablecoin issuance.

Canada

Canada has moved to formalise its stablecoin regime with the Stablecoin Act[6] (draft legislation, 2025), establishing a national framework overseen by the Bank of Canada. The Act applies to fiat-referenced stablecoins used inter-provincially or internationally, excluding closed-loop systems and federally regulated financial institutions. Issuers must maintain 1:1 reserves in bankruptcy-remote structures, offer mandatory redemption at par, and are prohibited from paying yield — a restriction designed to avoid classification as securities under provincial law. The Act also amends the Retail Payment Activities Act to broaden oversight to stablecoin-related payment activities. Canada's approach is cautious and supervisory-intensive, prioritising consumer protection over hub ambition, and notably does not address central bank liquidity access.

Japan

Japan's stablecoin regime, established in 2023 and refined through 2025, remains one of the world's most comprehensive.[7] Only licensed banks, trust companies, and registered money transfer agents can issue yen-denominated stablecoins, which must be fully backed by cash or highly liquid assets and redeemable at par. The Financial Services Agency (FSA) enforces strict reserve segregation, bankruptcy-remote structures, and AML/KYC rules, including the Travel Rule. The framework is conservative and bank-centric, prioritising financial stability and consumer protection. In 2025, the FSA introduced new intermediary licensing categories and is consulting on eligible collateral (e.g., foreign sovereign bonds), balancing flexibility with rigorous oversight. Japan's approach aligns with global and dominant regional standards (e.g., FSB, MiCA). Japan permits foreign stablecoins like USDC, but strict compliance rules - including Travel Rule enforcement (FSA, 2025) – may deter issuers seeking lighter regulation.

South Korea

South Korea's Digital Asset Basic Act,[8] intended to introduce a two-tier regulatory structure for stablecoins, has been delayed until later in 2026 due to disputes between the Bank of Korea and the Financial Services

Commission. The Bank of Korea advocates for banks to hold 51% ownership of stablecoin issuers to ensure stability, while the FSC seeks a more flexible approach to foster innovation. Until the law is finalised, domestic stablecoin issuance remains illegal, forcing reliance on foreign stablecoins like USDC and USDT. This delay naturally prolongs regulatory uncertainty for issuers and exchanges. The draft framework requires issuers to maintain high-quality reserves exceeding 100% of circulating supply, held in segregated bank or custodian accounts, and introduces no-fault liability for operators[9]. Korean authorities remain concerned about cross-border spillovers and the potential for stablecoins to undermine capital flow management.

Hong Kong

Hong Kong has implemented a bank-led stablecoin model under the Stablecoins Ordinance, which came into effect on 1 August 2025. The regulatory framework, overseen by the Hong Kong Monetary Authority (HKMA, 2025), requires issuers to be well-capitalised, supervised, and embedded within the traditional financial system. The logic used is clear: banks can provide stronger safeguards while accelerating mainstream adoption. So rather than granting banking licenses to crypto firms, Hong Kong leverages the existing expertise of banks in KYC-onboarding, reserve management, and compliance controls. As of late 2025, the HKMA has received 36 license applications, with the first approvals expected in early 2026 (RTHK, 2025). HSBC and Standard Chartered remain the most likely candidates to become the first licensed issuers, reflecting the regime's emphasis on strict reserve quality, liquidity requirements, and transaction monitoring.[10]

United Arab Emirates

The UAE has built one of the world's most deliberately hub-seeking stablecoin frameworks, combining federal oversight with distinct regimes across its financial free zones. The Central Bank of the UAE (CBUAE) governs Payment Tokens at the federal level, reserving AED-denominated stablecoins to central bank oversight and restricting foreign payment tokens to institutional use (CBUAE, 2024). Within the Abu Dhabi Global Market, the FSRA operates a purpose-built Fiat-Referenced Token framework requiring full 1:1 reserve backing, daily valuations, monthly independent attestations, and par redemption at T+2 (ADGM, 2025). Dubai's Virtual Assets Regulatory Authority governs virtual asset activity on the mainland and in most free zones (VARA, 2023).

Then in February 2026, the UAE's Capital Markets Authority issued Decision No. 4/R.M/2026, consolidating federal VASP licensing into a single three-module framework with capital requirements ranging from AED 500,000 to AED 4 million by activity type, and reaffirming absolute prohibitions on algorithmic stablecoins and privacy tokens across all jurisdictions (Neoslegal, 2026).[11]

The practical results of this regulatory clarity are already visible. In March 2026, USDU — a USD-backed stablecoin issued by Universal Digital — became the first dollar stablecoin registered by the CBUAE as a Foreign Payment Token, operating under dual oversight from the CBUAE and the ADGM FSRA and restricted to institutional participants (Coindoo, 2026). A dirham-pegged stablecoin had launched in late 2024, with further dirham tokens following in 2025 from Zand Bank, and First Abu Dhabi Bank and Emirates NBD both signalling entry into the market.

For the purposes of this paper, the UAE illustrates the regulatory arbitrage dynamic in an acute form. Its multiple licensing pathways, competitive capital requirements, and institutional-grade frameworks represent a deliberate strategy to attract global issuers. Unlike the four middle-power economies examined here, the UAE operates without an independent floating currency — its dirham is pegged to the US dollar — which changes the domestic monetary sovereignty calculus and arguably makes it a more natural host for USD-denominated offshore stablecoin issuance, with less to lose from imported monetary conditions. The UAE is therefore included not as a middle-power economy in the Carney (2026) sense, but as the clearest current example of an emerging stablecoin hub jurisdiction.

European Union (reference point)

While not a "middle power," the EU's Markets in Crypto-Assets (MiCA) regulation (European Parliament and Council, 2023) serves as an important benchmark — but it also illustrates the risks of pursuing multiple digital money strategies simultaneously. Unlike other jurisdictions that maintain a clearer separation between public and private digital money, the EU is developing three overlapping systems: the digital euro, a public CBDC targeting both retail payments and wholesale settlement via the Eurosystem's Pontes project (ECB, 2026); MiCA-regulated euro-stablecoins, subject to strict 1:1 HQLA reserve requirements and a prohibition on yield-sharing; and Wero[12], a pan-Eurozone instant payment system that competes with global stablecoins while being intended to complement the digital euro. All three could target cross-border B2B payments but operate on distinct infrastructures, creating regulatory fragmentation and market confusion.

MiCA's strict rules — no yield-sharing, enhanced supervision for significant issuers — make it a conservative benchmark that other jurisdictions use as a reference point, even where they diverge. However, MiCA does not address central bank liquidity access, and its prohibition on yield-sharing may place euro-denominated stablecoins at a competitive disadvantage relative to alternatives issued under more permissive regimes[13]. The EU's hedging strategy risks producing a patchwork in which none of the three pillars achieves dominant adoption, while systemic risks from offshore euro-stablecoin liquidity circulating outside regulated channels remain unaddressed.

Implications of Divergence

The divergences documented above create clear incentives for regulatory arbitrage. Issuers will gravitate toward the combination of reserve rules, licensing requirements, and supervisory expectations that best suits their business model — and the evidence that this is already happening is visible in the UAE, where a deliberately hub-seeking architecture has attracted the first CBUAE-registered dollar stablecoin within months of its framework reaching maturity. At the other end of the spectrum, Japan and Hong Kong's bank-centric models may deter lighter-touch issuers entirely, pushing activity offshore.

This divergence makes cross-border oversight increasingly difficult and raises the real prospect that stablecoin issuance will concentrate in a small number of regulatory hubs, replicating the offshore centre dynamics of the eurodollar era. The emergence of multi-issuer stablecoins compounds this risk: where fungible tokens are jointly issued by entities across several jurisdictions, supervisory oversight fragments, reserve pools splinter, and contagion channels emerge that cut across regulatory perimeters, as Portes (2025) has warned about. These dynamics echo the regulatory arbitrage and fragmented oversight that characterised the historical eurodollar system.

Multi-issuer stablecoins pose particular challenges for the EU, which may face systemic risks from widely circulating non-euro-denominated coins such as USDC that fall outside MiCA's full supervisory reach. By contrast, sterling- or yen-denominated stablecoins are much less likely to gain traction beyond their native markets, limiting the cross-border exposure of the UK and Japan.

Zooming out, the arrival of newly designed stablecoins in new regulatory regimes represents not so much a single technology but a spectrum of design choices, each carrying different implications for risk, regulation and utility. The Cambridge Centre for Alternative Finance (2026) highlights that tokenized money systems differ widely in interoperability, reserve composition and regulatory treatment. This underlines the significance of cross-jurisdictional coordination. As stablecoin markets scale, the design choices made will shape the distribution of financial stability risks and the degree of monetary policy leakage across borders.

Should Systemic Stablecoin Issuers Access Central Bank Liquidity?

One of the most consequential regulatory dilemmas today is whether systemic stablecoin issuers belong inside the central bank tent. The Bank of England forced this issue into the open with its 2025 consultation, explicitly

floating the idea of granting sterling-denominated, systemic issuers access to central bank deposit accounts and potentially to liquidity facilities. The objective is straightforward: reduce run risk and ensure redemption at par during periods of market stress. If HM Treasury designates an issuer as systemic, and that issuer clears stringent prudential hurdles, it could be integrated directly into the core payment infrastructure. Make no mistake, however—this crosses a major historical Rubicon. It fundamentally blurs the long-standing divide between public and private money, and the implications of such a policy would extend far beyond the UK.

The financial stability argument for opening the discount window is undeniably strong. Even when backed entirely by high-quality liquid assets, stablecoin reserves are never perfectly liquid during a severe market freeze. A central bank backstop ensures that issuers can meet sudden, massive redemption requests without triggering destabilising fire sales of government securities. As the Bank of England (2025) argues, this safety net supports a stable "multi-money" ecosystem where commercial bank money and stablecoins safely coexist, both anchored by the central bank. Furthermore, it simply levels the playing field, aligning the treatment of systemic stablecoins with other critical payment providers that already enjoy central bank settlement privileges.

Yet, extending the public safety net to private crypto firms invites massive moral hazard. If issuers know a lender of last resort is waiting in the wings, they are heavily incentivised to take on greater duration or liquidity risk – constrained only by prudential oversight and regular reserves attestations. More critically, this arrangement effectively mints a **synthetic CBDC**. It creates a privately managed digital asset that quietly relies on the central bank's balance sheet. This could weaken the distinct role of central bank liabilities in the monetary system and complicate future decisions about retail or wholesale CBDC design.

Beyond monetary theory, central bank access would reshape competitive dynamics. Issuers granted this privilege would hold a structural advantage over their peers, which likely leads to market concentration. Jurisdictions that permit access may attract large global issuers, while those that do not, may see stablecoin activity migrate offshore. And if one jurisdiction grants access while others do not, issuers may arbitrage regulatory regimes by locating their legal entities in the most permissive environment while serving users worldwide. This divergence could fragment the regulatory landscape and create cross-border spillovers, particularly if stablecoins are used for wholesale settlement or multi-jurisdiction issuance. It also complicates resolution planning during a crisis.

At its core, this is a decision about the architecture of digital money. Should (systemic) stablecoins be treated as part of the core payment infrastructure, or remain a private market experiment? The Bank of England's proposed framework suggests they can be brought into the fold, provided the guardrails are high enough to protect the primacy of fiat. But if regulators decide the risks of a synthetic CBDC are too high and choose to maintain the strict separation of public and private money, then they must rely entirely on reserve requirements. Whatever path they choose will likely have consequences beyond national borders.

Could Stablecoins Become The New Eurodollars?

Stablecoins share several structural features with the historical eurodollar system. As Shin (2022) argues, and as Brunnermeier, James and Landau (2019) formalise, offshore issuance of currency-linked liabilities can transmit foreign monetary conditions across borders and weaken domestic monetary control. Rey (2013) demonstrated that these dynamics already drive the global financial cycle, even without digital money in the mix.

Stablecoins issued from permissive jurisdictions could replicate these dynamics at greater speed and scale, given their instantaneous global transferability. The IMF has similarly warned that large-scale adoption of private digital money could create new channels of cross-border liquidity transmission and monetary policy leakage (IMF, 2022). These risks become more pronounced under multi-issuer models, where reserves may be fragmented across jurisdictions with divergent supervisory regimes (Portes, 2025).

The core issue is the geographic decoupling of issuance from the underlying currency. A stablecoin pegged to the U.S. dollar or the euro can be minted anywhere. If issuers deliberately domicile in countries with lax reserve rules or light-touch supervision, they can generate massive volumes of currency-linked liabilities entirely outside the reach of the central bank that actually issues the reference currency. This is the eurodollar phenomenon reborn: offshore dollar creation expanding completely independent of U.S. monetary policy.

As these offshore stablecoins scale, their reserve portfolios act as conduits. When a stablecoin is issued in one country but backed by assets from another, it effectively imports the asset-issuing jurisdiction's monetary stance. At the same time, domestic central banks lose their grip. Their traditional policy tools have little to no traction over stablecoin-denominated liquidity sloshing through their own financial systems. This monetary policy leakage severely complicates domestic liquidity management and the calibration of policy tools.

Furthermore, the sheer velocity of blockchain-based transfers changes the nature of the risk. If stablecoins become the standard for wholesale settlement or collateral, cross-border liquidity flows could outpace the capacity of supervisory control. During market stress, this instantaneous mobility threatens to amplify liquidity shocks to a dangerous degree. Just as offshore dollar liquidity surged and evaporated in response to global risk sentiment during the eurodollar era, stablecoin liquidity could trigger identical—albeit much faster—boom-and-bust cycles today.

Regulatory Arbitrage and the Emergence of Stablecoin Hubs

When regulatory regimes diverge, issuers naturally gravitate toward the path of least resistance. By shopping for the most permissive combination of reserve requirements and supervisory oversight, they lay the groundwork for stablecoin "offshore centres." These jurisdictions lure issuers with light-touch rules, fast-track licensing, and occasionally even implicit public backing. The payoff for the host country is substantial. Beyond the immediate economic injection of licensing fees and local reserve deposits, these hubs capture lucrative transaction fees and foreign exchange spreads from a global user base. Over time, hosting major issuers may also translate into geopolitical soft power, echoing Switzerland’s historical dominance in cross-border banking.

It is easy to look at this dynamic and see a replay of the 1960s and 70s, when London birthed the offshore eurodollar market. But that comparison misses a critical technological shift. The original eurodollar hubs relied on the sluggish, bank-intermediated plumbing of telex and early SWIFT networks. Stablecoin hubs, by contrast, settle instantaneously onchain. A run on a Singapore-domiciled USD stablecoin wouldn't play out over days; it could trigger real-time fire sales of U.S. Treasuries, stressing sovereign debt markets in a matter of hours.

Furthermore, the underlying business model has evolved into "seigniorage 2.0." Issuers mint coins at virtually zero cost and park the reserves in short-dated sovereign debt, pocketing the yield. This works pretty well—until reserve liquidity evaporates, as it did during the March 2020 Treasury market dysfunction. Stablecoin hubs supercharge this model. They allow entities to issue liabilities in multiple currencies under a single domestic rulebook, capturing global transaction fees while effectively outsourcing the ultimate tail-risk management to the central banks that issue the underlying fiat.

Perhaps the most alarming difference lies in crisis management. When the Franklin National Bank collapsed in 1974, the fallout immediately toppled Germany's Herstatt Bank. That dual failure forced the Fed, the Bundesbank, and the Bank of England into improvised, frantic coordination, ultimately birthing the Basel Committee on Banking Supervision. Today’s stablecoin hubs face similar cross-border accountability gaps, but without any of the institutional safety nets that took decades to build post-Herstatt. Currently, stablecoin issuers operate without a guaranteed lender of last resort. While the UK is exploring limited central bank access, no jurisdiction has actually deployed a functional backstop. Supervision remains severely fragmented; an issuer regulated in one country serves users in dozens of others, creating massive enforcement blind spots. And while eurodollar hubs could lean on banking licenses and deposit insurance to stem panics, stablecoins rely entirely on a full-reserve model. That model has never been stress-tested at systemic scale, nor is its transparency

guaranteed. These vulnerabilities are compounded under multi-issuer models (Portes, 2025), where hubs may host multiple competing issuers of the same currency-pegged stablecoin (e.g., USD), fracturing reserve pools across different regulatory borders.

Potential Scale and Systemic Relevance

If stablecoin issuance reaches into the trillions of dollars, these offshore liquidity pools will dictate global funding conditions. They will compete directly with money market funds and heavily influence sovereign debt markets. The eurodollar system became a systemic force purely through its scale and interconnectedness. Stablecoins are on the same trajectory, just moving much faster. Without harmonised reserve rules and aggressive cross-border supervisory cooperation, we are sleepwalking into a parallel offshore liquidity system. Policymakers can no longer afford to treat stablecoin regulation as a purely domestic issue; the global spillovers of privately issued currency-linked liabilities are already here.

Macro-Financial Implications Of Large-Scale Stablecoin Issuance

As stablecoin issuance approaches systemic scale, the potential fallout will inevitably spill far beyond the crypto ecosystem. When stablecoin liabilities rival the size of major money market funds or large bank balance sheets, their reserve portfolios and redemption mechanics begin to dictate sovereign funding conditions. Just like the eurodollar markets before them, offshore stablecoin liquidity can transmit monetary conditions globally while completely sidestepping domestic oversight. During stress events, this dynamic acts as a massive risk amplifier (Shin, 2022; IMF, 2022).

The mechanics of this risk are rooted in how these coins are backed. Most fiat-pegged stablecoins are required to hold high-quality liquid assets, typically short-term government paper. If a handful of issuers collectively hoard hundreds of billions—or trillions—of these securities, they become dominant forces in sovereign funding markets. In quiet times, their insatiable demand compresses yields. But during a panic, the script flips. Because stablecoin redemptions can execute instantaneously and at a global scale, a sudden loss of confidence forces issuers to liquidate reserves at breakneck speed.

This creates a vicious procyclicality. We have seen this behaviour before with money market funds, but blockchain settlement accelerates the timeline. Even nominally safe assets can see their market liquidity evaporate under severe stress, exactly as the U.S. Treasury market experienced in March 2020. Without a central bank liquidity backstop, stablecoin issuers have no choice but to dump assets into a falling market. This triggers classic liquidity spirals in short-term funding markets, transmitting volatility across borders in real time.

The threat isn't isolated to government bonds; it bleeds directly into traditional banking. Stablecoins—particularly those offering yield in permissive jurisdictions—compete head-to-head with bank deposits and money market funds. A massive migration of capital into stablecoins drains low-cost funding from the banking sector. This drives up bank funding costs, reshapes their balance sheets, and blunts the transmission of domestic monetary policy. The reverse is equally dangerous. In a crisis, a sudden flight to safety out of stablecoins and back into traditional bank deposits creates violent, unpredictable surges in bank liquidity. These two-way flows forge entirely new contagion channels between digital and traditional finance.

Because these assets circulate globally, their reserve portfolios act as monetary Trojan horses. A stablecoin minted in one jurisdiction but backed by foreign assets effectively imports the asset-issuing country's monetary policy into the host's financial system. If these instruments become the standard for wholesale payments or collateral, domestic central banks will find their levers of monetary control increasingly useless, overridden by offshore stablecoin activity.

Ultimately, this forces a reckoning over the public safety net. A large issuer holding a significant share of sovereign short-term debt (e.g., $500B+ in U.S. Treasuries, comparable to the largest money market funds) could become systemically important even if its liabilities are fully collateralised. If that issuer fails, it disrupts global

funding markets and paralyzes payment flows. Policymakers will inevitably face immense pressure to step in with liquidity support or emergency resolution frameworks. Treating private stablecoin issuers as core financial infrastructure crosses a dangerous line, forcing the public to underwrite private digital money. Yet, without aggressive oversight and cross-border coordination, this new layer of global liquidity will continue to amplify boom-and-bust cycles and severely complicate monetary policy.

Policy Recommendations

Treating stablecoin regulation as a simple consumer protection issue is a dangerous miscalculation. At systemic scale, these instruments actively rewire sovereign debt markets, monetary policy transmission, and cross-border liquidity. To close the gaps in the current global framework, policymakers must move beyond localized rulemaking and execute on five critical fronts:

1. Enforce global baselines for reserves and offshore liquidity. Regulatory arbitrage is already fracturing the market. To stop this, jurisdictions must agree on a hard baseline: 100% backing by high-quality liquid assets, strict segregation of reserves into bankruptcy-remote trusts, and transparent, real-time valuation. Crucially, regulators must tackle offshore liquidity risks head-on by forcing issuers to disclose cross-border reserve allocations and restricting their ability to domicile in overly permissive hubs. Multi-issuer structures—where fungible tokens are minted by different entities across various borders—are particularly problematic here, as they splinter reserve pools and create contagion channels that easily bypass national supervisors (Portes, 2025). The FSB and BIS must step in to enforce these baselines before unstable offshore hubs emerge and become too entrenched.

2. Draw a hard line on central bank liquidity access. If systemic issuers are granted access to central bank facilities, the terms of engagement must be very robust. Access cannot be a free lunch; it must demand real-time reserve transparency, rigorous stress-test compliance, and flawless governance. More importantly, central banks must explicitly state *why* they are granting this access. Is it merely to backstop payment system stability, or is it a backdoor to creating a synthetic CBDC? Ambiguity here breeds moral hazard and competitive distortions.

3. Calibrate stress tests and resolution regimes to crypto-native run dynamics. A stablecoin run does not look like a traditional bank run. Redemptions execute instantaneously and globally, without the friction of overnight settlement buffers to absorb the shock. Regulators must design stress tests that model simultaneous, cross-jurisdictional runs, ensuring issuers can meet par redemptions without triggering a March 2020-style fire sale of sovereign debt. Furthermore, the market urgently requires a resolution framework that addresses the cross-border accountability gaps exposed decades ago by the Franklin/Herstatt crisis. Today's stablecoin issuers operate without a guaranteed lender of last resort or a designated resolution authority. Frameworks must mandate segregated reserve pools to protect users, and authorities should debate the mechanics of temporary liquidity backstops for solvent-but-illiquid issuers.

4. Police the liquidity bridge between stablecoins and traditional banking. In a crisis, capital will likely move rapidly between stablecoins, bank deposits, and government money market funds. Regulators need real-time telemetry on these flows. They must establish macro-prudential triggers—tied directly to a stablecoin's footprint in short-term sovereign debt markets—that automatically enforce stricter reserve or liquidity requirements before systemic thresholds are breached. Additionally, authorities must watch for deposit flight. When permissive jurisdictions allow stablecoins to offer yield, they siphon funding away from domestic banks in stricter regimes. This asymmetric risk is especially dangerous for middle-power economies, whose concentrated banking sectors are more vulnerable to sudden deposit drains.

5. Stop building competing digital money architectures. Jurisdictions must align their stablecoin frameworks with their broader CBDC strategies. The European Union's current trajectory—simultaneously pushing a digital euro, MiCA-regulated stablecoins, and the Wero instant payment system—clearly illustrates the danger of

launching overlapping systems without a clear hierarchy of purpose. Policymakers must explicitly map out where private stablecoins sit relative to public digital currencies. If a systemic stablecoin is granted central bank liquidity access, regulators must ask themselves if they have just pre-empted the need for a retail CBDC entirely. Failing to confront this question risks accidentally minting a de facto CBDC through regulatory design rather than a deliberate public policy choice.

Conclusion

Stablecoins are no longer a fringe crypto asset. They are actively embedding themselves into the plumbing of global payments and liquidity. As middle-power economies move quickly to craft regulatory frameworks for national stablecoins, their differing approaches risk creating a fragmented global landscape. Variations in reserve requirements, redemption rights, and access to central bank liquidity do more than influence where issuers base themselves—they are reshaping how digital liquidity interacts with sovereign debt markets and cross-border monetary policy.

If left unchecked, this regulatory divergence may lead us to see a modern version of the eurodollar market emerge: a large offshore liquidity system operating largely beyond the reach of domestic monetary authorities.

At systemic scale, the reserve portfolios backing these stablecoins will influence short-term government debt markets and create new contagion vectors between traditional and digital finance. Furthermore, there is a critical unresolved issue on whether stablecoin issuers should have access to central bank liquidity. How policymakers answer this will ultimately decide what a stablecoin actually is: a private payment tool, or a synthetic CBDC.

Managing these macro-financial risks requires more than isolated domestic policies. It demands immediate, cross-border coordination on reserve standards, stress testing, and resolution frameworks. Regulators also cannot afford to treat stablecoins in a vacuum; they must integrate these rules with broader CBDC strategies and commercial banking frameworks. The market is scaling too fast for a wait-and-see approach. Without unified action, the global financial system risks importing increased instability under the guise of payment innovation.

NOTES

[1] See: Boston Consulting Group, 2026: The Future is Onchain. As cited in Coinbax, 2026.

[2] See BIS CPMI Report, 2023. Considerations for the use of stablecoin payments in cross-border payments.

[3] As of March 2026, the CLARITY Act remains under congressional debate; the final legislative outcome may affect the analysis herein.

[4] Avoid conflating "multi-currency" with "multi-issuer**."** Multi-currency refers to stablecoins denominated in a basket of multiple fiat currencies (e.g., USD, EUR, JPY), while multi-issuer refers to multiple entities jointly issuing fungible tokens across jurisdictions.

[5] Countries with independent monetary regimes and significant but not dominant global influence.

[6] See also Osler, December 2, 2025. Canada releases draft framework for stablecoin regulation.

[7] See also Crypto Council for Innovation: Policy Brief: Japan's FSA crypto asset and stablecoin framework, 2025.

[8] See also Maeil Business Newspaper, December 19, 2025.

[9] South Korea's 'no-fault liability' rule means issuers must compensate users for redemption failures or reserve shortfalls ***automatically***, without users needing to prove negligence—akin to strict product liability laws in consumer protection.

[10] See also Bloomberg: *HSBC, Standard Chartered Lead Hong Kong's Stablecoin Race*, March 13, 2026.

[11] Note that Decision No. 4/R.M/2026 sits alongside, not in replacement of, VARA, ADGM/FSRA, DIFC/DFSA and CBUAE, each of which retains its own regulatory perimeter. Compliance with one framework does not substitute for compliance with another (UAE Crypto Law Alerts, 2026)

[12] See European Payments Initiative (2026), and the Wero.

[13] Some member states have recently shifted from a 'suspicion of crypto' regulatory stance to a welcoming policy for digital currencies of various stripes, as seen in the Netherlands (DNB, 2026).

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