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By

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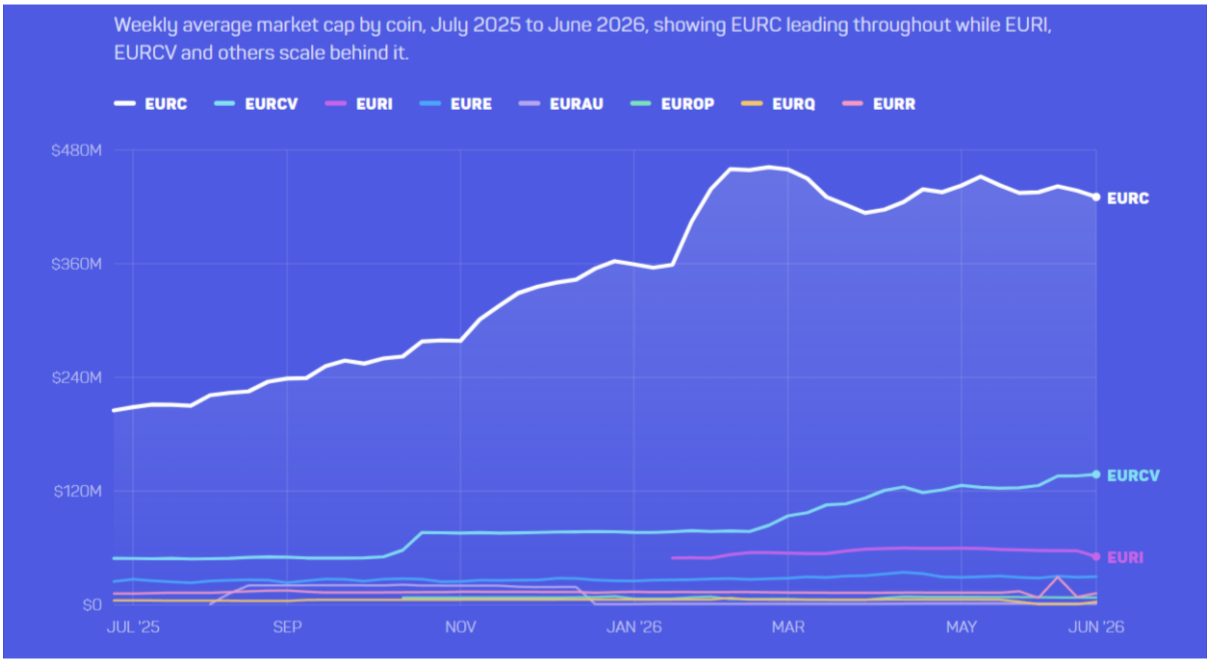
Executive Summary

- The ECB rejected the European Commission proposals to relax MiCAR's treatment of stablecoins, arguing that large-scale stablecoin adoption could weaken monetary policy transmission, bank funding, and financial stability.
- Dollar-denominated stablecoins currently dominate digital finance, benefitting from strong network effects, liquidity, and growing regulatory support in the United States.
- Europe faces a paradox: restricting euro-denominated stablecoins may unintentionally accelerate digital dollarization rather than protect monetary sovereignty.
- The ECB's preferred response is the digital euro and a broader tokenised finance strategy centred on central bank money and European financial infrastructure.
- Project Pontes and Appia are the ECB's response to the challenges posed by the USD-based stablecoins. But, while Pontes is supposed to start imminently (in H2 2026), Appia is not supposed to come online before 2028, when USD-stablecoins dominance may be already entrenched.
- Private stablecoins may scale faster than public initiatives, making a hybrid model of digital euro, tokenised deposits and regulated euro-denominated stablecoins a potentially more effective long-term solution.

Key Picture: Market Capitalisation of the Top 8 Euro-Pegged Stablecoins



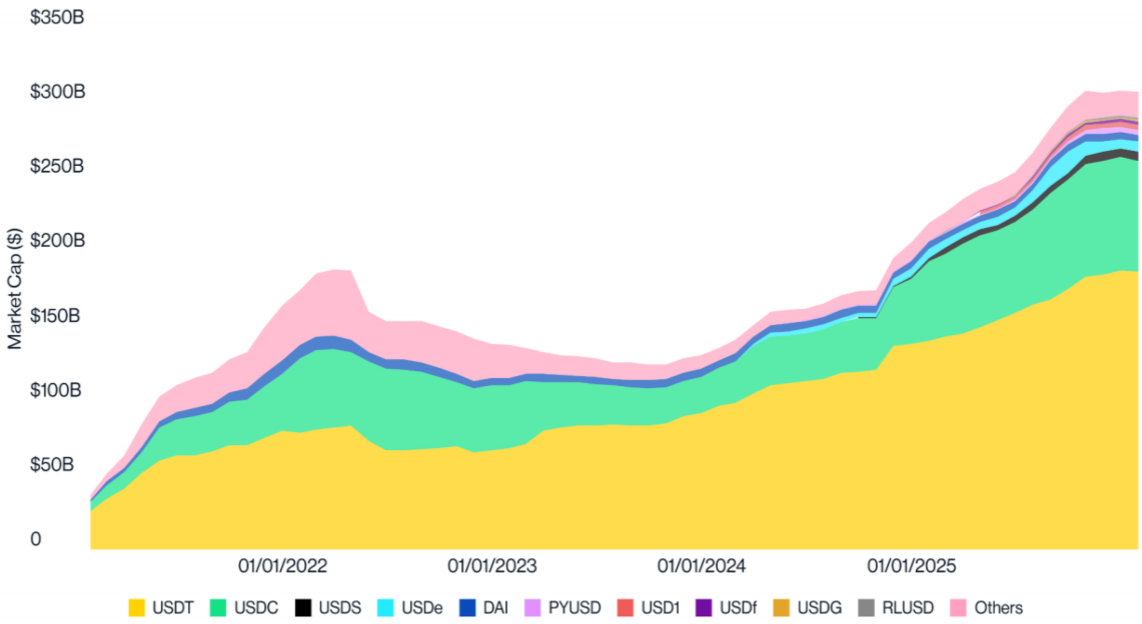
Source: Decta, Euro Stablecoin Trend Reports 2026

1. ECB's Resistance to Large-Scale Stablecoin Adoption

On 22 May 2026, the European Central Bank (ECB) rejected proposals aimed at expanding the Euro stablecoin market, citing fears that large-scale adoption of stablecoins could drain deposits from commercial banks, weaken traditional funding channels, and complicate monetary policy transmission.[1] This decision reflects a deeper strategic dilemma for Europe. While the ECB views caution as necessary to preserve financial stability and monetary control, one view suggests that excessive restraint could leave Europe increasingly dependent on dollar-backed stablecoins that already dominate global digital payments.

The Bruegel Institute had warned that Europe faces a risk of digital dollarisation if euro-denominated digital payments instruments fail to develop alongside increasingly dominant dollar-based alternatives.[2] In the same context, ECB President Christine Lagarde explicitly argued that letting dollar-pegged tokens like Tether's USDT and Circle's USDC dominate digital payments inside the Euro area would amount to a gradual dollarisation of the bloc (**Figure 1**).[3] This raises a critical question: Is Europe protecting its monetary sovereignty or inadvertently surrendering digital finance leadership to the US?

Figure 1: USD-Pegged USDT and USDC Dominate the Stablecoin Market



Source: CoinDesk Data; Note: Total Stablecoins Market Cap, 2021-Present

The ECB's position reflects fundamental concerns about monetary stability rather than simple anti-innovation sentiment. Stablecoins function as privately issued digital money, backed one-for-one with cash and short-dated government debt, and ECB believes that in the Euro area, where banks remain the dominant source of credit to the real economy, large-scale deposit substitution into stablecoins would weaken lending to firms and monetary policy transmission.[4]

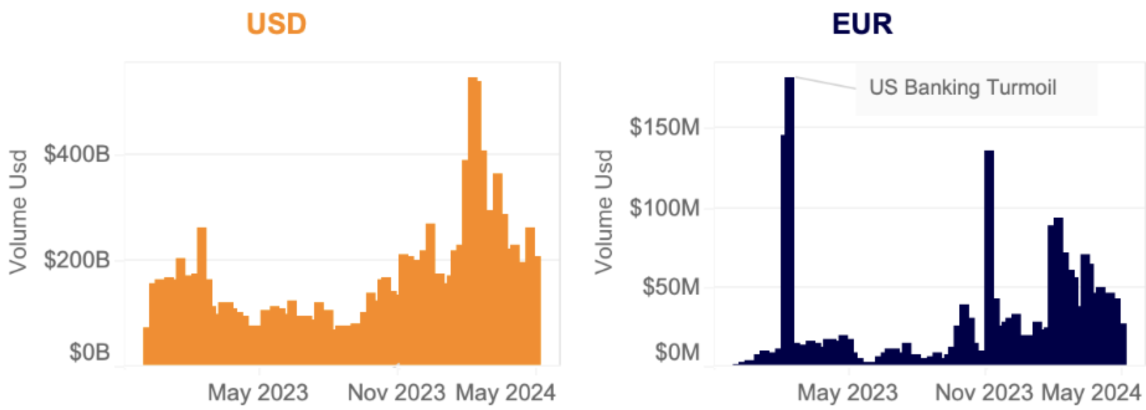
This has led the ECB to identify several specific risks. When retail deposits migrate into non-bank stablecoins and return to banks as wholesale funding, the channel through which interest rate decisions reach firms and households narrows. Banks lend less efficiently, and the pass-through from policy rates to the real economy weakens. This matters particularly because the ECB's ability to maintain price stability depends on interest rate decisions reaching the economy through the banking system. Furthermore, multi-issuer schemes add vulnerability. Where the same stablecoin is issued jointly by European Union (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 – likely the EU, where MiCAR prohibits redemption fees but reserves held in the EU may not suffice.[5]

From the ECB's perspective, the issue is control over the monetary system. Stablecoins introduce a parallel payments infrastructure that could operate outside channels through which central banks influence economic activity. The ECB therefore sees stablecoins not just as payment instruments but as potential competitors to the existing structure.

2. Europe's Competitive Challenge

Europe's cautious approach to stablecoins is unfolding against a backdrop of continued dollar dominance in digital finance. USD stablecoins processed through retail virtual asset providers (VASPs) amounted to approximately USD 310 billion in January 2025 and USD 274 billion in March 2026. By contrast, euro-denominated stablecoins volumes increased from USD 69 billion to USD 777 million over the same period (**Figure 2**). Although this represents more than a tenfold increase, EUR stablecoins still accounted for less than 0.3% of total VASP volume.[6] The figures therefore suggest that, despite regulatory efforts under MiCAR, euro-denominated stablecoins remain marginal compared with their dollar-denominated counterparts, which continue to dominate global digital asset markets.

Figure 2: Stablecoin Weekly Trade Volume



Source: Kaiko Liquidity Asset Metric

The critical issue is that digital finance exhibits network effects – users gravitate toward the most liquid assets, merchants accept currencies with the largest user bases, and developers build around dominant systems. Data from the Bank for International Settlements (BIS) and the US Treasury indicates that approximately 99% of stablecoins currently on the market are USD-pegged, maintaining the dollar's overwhelming dominance in the digital asset space.[7] In digital finance, first-mover advantages can become self-reinforcing and every year that euro-denominated stablecoins remain marginal strengthens the incumbency advantage of dollar stablecoins. This presents a significant competitive challenge for Europe. As dollar-backed stablecoins continue to dominate market activity, their liquidity, user base and ecosystem advantages become increasingly entrenched, making it more difficult for euro-denominated alternatives to achieve scale.

The US has actively embraced this dynamic. The GENIUS Act is explicitly described as a tool to ensure "the continued global dominance of the US dollar" and to cement demand for US Treasuries.[8] By requiring stablecoin issuers to back assets with Treasuries and US dollars, the GENIUS Act will generate increased demand for US debt and cement the dollar's status as the global reserve currency. In this sense, the GENIUS Act provides the fast-growing stablecoin market with regulatory clarity needed to grow into a multi-trillion-dollar industry, marking "a seminal moment for digital assets and dollar supremacy".[9]

This shifts the debate from regulation to geopolitical contestation and the question becomes whether Europe's restrictive approach is protecting sovereignty or accelerating the global digitalisation of the dollar. If the US is using stablecoin regulation to strengthen the international role of the dollar while Europe prioritises caution, there is a risk that dollar-denominated stablecoins will become further embedded in global digital finance before euro-denominated alternatives can establish a meaningful presence.

3. The Paradox of Monetary Sovereignty

The ECB's attempt to defend sovereignty may produce the opposite outcome. The paradox is stark – restrict euro stablecoins while demand for digital assets remains, and users may simply adopt dollar stablecoins instead. By limiting the growth of euro-denominated stablecoins, European authorities may not reduce stablecoin usage overall, but they may simply influence which currency dominates that usage.

This introduces "digital dollarisation" – non-US users settling transactions in digital dollars, reducing the euro's relevance in emerging digital payment ecosystems, and increasing influence of US financial infrastructure.[10] Lagarde warned that letting dollar-pegged tokens dominate digital payments inside the euro area would amount to gradual dollarisation.[11] As **Figure 3** shows, in a traditional cross-border transaction (from the Eurozone to the Philippines, in this case) using usual SWIFT channels, central banks and corresponding banks will settle the transaction converting their currencies. If the blockchain is used for the same transaction, the asset used on chain would be a USD-denominated stablecoin, such as USD. More worryingly, this could happen even in case of an intra-EUR cross-border transaction, with funds moving from Germany to France.

Figure 3: Even For Intra-EUR Cross-Border Transactions, USD-Stablecoins Could be Used as Settlement Asset

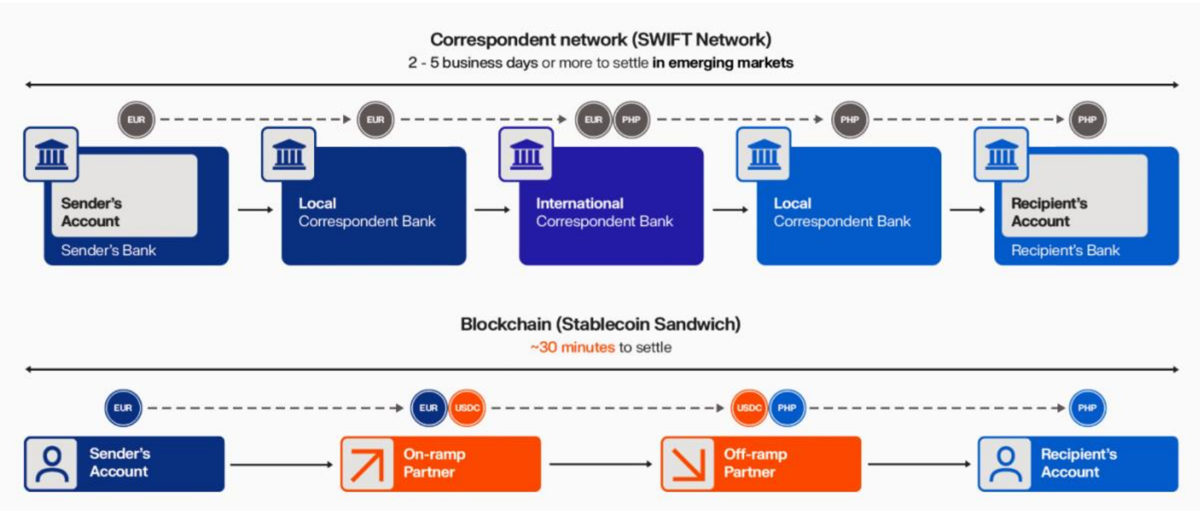
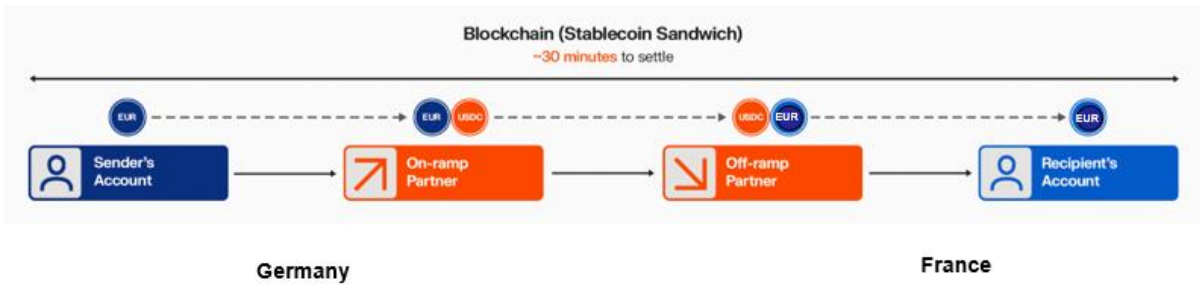


Figure 3a: Intra-EUR transaction, between Germany and France



Source: BVNK and Rosa & Roubini Associates

This is a particularly significant concern because dollar-denominated stablecoins have, through first-mover advantage and network effects, already become the dominant settlement instrument in tokenised finance. MiCAR attempts to mitigate this risk by limiting the use of foreign-issued stablecoins in the EU. Significant stablecoins are generally restricted to a daily threshold of 1 million transactions or EUR 200 million in value, reflecting concerns about dollarisation and excessive dependence on non-European payment instruments.[12]

However, the ECB has expressed concerns that stablecoins issued simultaneously inside and outside the EU (multi-issuance) could still pose financial stability risks.[13]

The result could be a digital payments ecosystem where European users increasingly transact in dollar-linked instruments despite residing within the euro area, as in the case of *Figure 3a* above. This is the key trade-off: the ECB's strategy may involve sacrificing short-term control for long-term currency influence. The growing argument is that to remain relevant, Europe must respond to promoting euro-denominated stablecoins, otherwise it may face a future of digital dollarisation and loss of monetary sovereignty.

4. Digital Euro and Its Limitations

The stablecoin debate cannot be understood without examining the ECB's digital euro project.[14] The digital euro is a CBDC, a direct liability of the ECB designed to preserve public money in the digital age while supporting monetary sovereignty and effective monetary policy transmission. The ECB is not opposed to digital money itself, rather, it seeks to promote a model where digital money remains anchored to the central bank rather than private issuers. More broadly, this reflects a deeper institutional preference. The ECB's vision of digital finance prioritises public monetary infrastructure over private monetary innovation, with central bank money continuing to serve as the anchor of the financial system. In this sense, the digital euro can be seen as both a technological project and a geopolitical effort to preserve central-bank relevance in the digital financial landscape.

This vision is being translated into practice through the Eurosystem's broader strategy for tokenised finance. Planned for initial launch in Q3 2026, the Pontes project will enable wholesale settlement of DLT-based transactions through TARGET, ensuring that transactions can settle in central bank money from the outset.[15] Complementing this initiative, the Appia Roadmap aims to establish the foundations for an interoperable European tokenised financial ecosystem by 2028.[16] From the ECB's perspective, the combination of settlement in central bank money, tokenised deposits and MiCAR-compliant euro-denominated stablecoins could reduce reliance on foreign private stablecoins and strengthen the role of the euro within emerging digital financial markets.

However, a digital euro may not fully solve Europe's competitiveness challenge. While it is intended to preserve monetary sovereignty and provide a public alternative to privately issued digital money, it faces competition from stablecoins that have already achieved significant scale and market adoption. Private issuers are often able to innovate more rapidly because they respond directly to market demand, and by the time a digital euro is fully operational, dollar-denominated stablecoins may already have strengthened their position through network effects, deep liquidity and established market adoption.[17] [18] This is crucial because payment systems are difficult to displace once adoption reaches scale. Dollar-denominated stablecoins have, through first-mover advantage and network effects, emerged as the dominant settlement instrument in tokenised finance, and the absence of a widely accepted tokenised cash settlement asset has constrained the development of tokenised financial markets in Europe, reinforcing the ECB's determination to provide settlement in central bank money.

Hence, the ECB's preferred solution may arrive too late to prevent entrenched dollar dominance. The Appia roadmap aims to establish the foundations for an interoperable European tokenised financial ecosystem by 2028, but by then dollar stablecoins may have cemented their position. Tokenised money market funds roughly doubled in market capitalisation in 2025, reaching around EUR 7 billion, outpacing growth in both stablecoins and traditional money market funds.[19] This acceleration suggests private innovation is moving faster than public infrastructure development.

The strategic risk is that Europe's digital euro becomes a late entrant in a market where dollar dominance is already deeply embedded. If network effects continue to reinforce the position of dollar-denominated stablecoins, Europe may find itself operating within a digital financial architecture increasingly shaped by foreign private issuers.

5. A Potential Middle Path

One realistic outcome may be neither unrestricted stablecoins nor complete reliance on a digital euro. Qivalis aims to launch a euro-pegged stablecoin by H2 2026,[20] reflecting efforts by major European banks to develop a European alternative capable of countering US dominance in digital payments. This represents a compromise approach – strict reserve requirements, enhanced supervision, limits on systemic concentration, and encouraging euro-backed stablecoin development through public-private cooperation.

Rather than viewing stablecoins solely as threats, they may also be understood as strategic instruments. If properly regulated, euro-denominated stablecoins could strengthen rather than weaken Europe's monetary position by ensuring that digital transactions occurring outside traditional banking channels remain denominated in euros rather than dollars. MiCAR already imposes extensive reserve, liquidity and governance requirements on stablecoin issuers, seeking to mitigate many of the risks identified by the ECB.

Europe's existing crypto rules therefore already incorporate measures to address stablecoin-related risks while allowing innovation to continue. Hence, the challenge is designing regulation that manages systemic risks without suppressing innovation and this middle path could allow euro stablecoins to serve as strategic instruments that strengthen Europe's monetary position while maintaining financial stability safeguards.

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