

Arguments for and Against CBDC and Stablecoins

Introduction

Central bank digital currencies (CBDCs) and stablecoins have moved to the forefront of financial policy debates in recent years, prompting extensive analysis of their potential benefits and drawbacks. **CBDCs** are digital forms of a nation's sovereign currency, issued and backed by the central bank, whereas **stablecoins** are privately issued digital tokens typically pegged to fiat currencies (often the U.S. dollar) and backed by reserves ¹. Both promise innovations in payments and finance, but also raise significant policy and technical questions. This report provides a comprehensive overview of arguments both for and against CBDCs and stablecoins, with a focus on developments and regulatory postures in the United States (US) and the European Union (EU).

In the US, the Federal Reserve has researched a potential “digital dollar” but has thus far refrained from any launch without clear legislative support ². Political opposition to a retail CBDC has grown: notably, in 2025 an executive order under President Trump halted all work on a consumer-facing CBDC, making the US an outlier among major economies ³. The Fed continues limited exploration of wholesale uses (e.g. for interbank or cross-border settlement), but the official stance is cautious and conditioned on congressional approval ⁴. By contrast, the EU is actively advancing a **digital euro**. The European Central Bank (ECB) has been piloting designs for a digital euro with the aim of bolstering the euro's international role ⁵, and the European Commission in 2023 proposed draft legislation to legally underpin a digital euro. This legislative process has been slowed down to address concerns over privacy (specifically, that a digital euro might lack the anonymity of cash and enable authorities to track spending) ⁶. Nonetheless, the EU's commitment to exploring a CBDC remains firm, with high-level assurances that any digital euro would uphold Europe's “highest standards” of privacy and data protection to maintain public trust ⁷ ⁸.

Meanwhile, **stablecoins** have rapidly grown from a niche crypto experiment into a significant element of the digital asset ecosystem. Global stablecoin supply reached roughly \$250–\$260 billion by mid-2025, with about 99% of that value in USD-pegged stablecoins ⁹. They facilitate on the order of \$20–\$30 billion in on-chain transactions per day (for remittances, trading, and settlements), still a small fraction of global payments but expanding quickly ¹⁰ ¹¹. The dominance of dollar-backed stablecoins has not gone unnoticed by policymakers: both the U.S. and EU have been formulating regulatory responses. In the U.S., regulators have thus far addressed stablecoins through existing financial rules in an ad-hoc manner, but federal legislation is under active debate – for instance, in June 2025 the U.S. Senate passed the **GENIUS Act**, the first federal bill focused on regulating USD-backed stablecoin issuers ¹². (As of this writing, that legislation is awaiting further action in the House of Representatives.) In the EU, a comprehensive framework has already been adopted as part of the **Markets in Crypto-Assets (MiCA)** regulation. MiCA will require issuers of stablecoins (termed “asset-referenced tokens” or e-money tokens under the law) to be licensed, meet transparency and reserve requirements, and it even empowers authorities to restrict the use of non-euro stablecoins if they are deemed to interfere with monetary sovereignty, monetary policy, or financial stability in the Eurozone ¹³. These divergent approaches reflect different philosophies: the U.S. has taken a more market-driven, fragmented stance so far, whereas the EU is pursuing a more standardized

regulatory regime – an example of the broader **regulatory fragmentation** globally that some experts warn could increase confusion and costs in cross-border digital payments ¹⁴ .

The following sections delve into the detailed arguments in favor of and against CBDCs and stablecoins. Each argument is examined with attention to both policy implications and technical considerations, and where relevant the analysis highlights the perspective or actions of U.S. and EU authorities. All points are supported by current, credible sources as noted in the footnotes.

Central Bank Digital Currencies (CBDCs)

CBDCs represent a digital liability of the central bank that can be used by the public as legal tender. They can be designed for **retail** use (accessible by individuals and businesses for everyday transactions) or **wholesale** use (restricted to banks and certain financial institutions for interbank payments and settlements). The potential introduction of a CBDC raises fundamental questions about the future of money, the role of central banks, and the architecture of financial systems. Below, we outline key arguments commonly made in favor of CBDCs, followed by the principal arguments against them.

Arguments in Favor of CBDCs

- **Monetary Sovereignty and Geopolitical Role:** A major motivation for many jurisdictions to explore CBDCs is to safeguard monetary sovereignty and reinforce the international standing of their currency. By issuing a digital legal tender, a central bank can ensure its currency remains the **dominant medium of exchange in the digital era**, rather than ceding ground to foreign currencies or privately issued crypto-assets. For example, officials in China have explicitly framed the digital yuan (e-CNY) as a way to **assert monetary sovereignty**, by regaining control from private payment providers and managing systemic risks ¹⁵ . More broadly, emerging-market central banks see retail CBDCs as a response to the growing use of foreign stablecoins within their economies – a way to prevent “dollarization” via digital currency and maintain control over monetary policy ¹⁶ . Similarly, the ECB’s pursuit of a digital euro is partly aimed at **strengthening the euro’s global role** and ensuring the euro area’s monetary autonomy in a world where digital currencies (potentially including a digital dollar or digital yuan) could otherwise dominate cross-border payments ¹⁶ . In short, proponents argue that introducing a CBDC can help a country **retain sovereignty over its money** in the face of technological change and foreign competition. Without a sovereign digital currency, a nation’s financial system might become overly reliant on external payment providers or currencies, potentially undermining the central bank’s ability to implement policy and monitor the economy.
- **Financial Inclusion:** Another frequently cited benefit is the potential to promote greater **financial inclusion**. A CBDC could provide easy and safe access to digital payments for unbanked and underbanked populations who may not have access to traditional banking services ¹⁷ . Because a retail CBDC can be designed as a public digital payment option requiring only a smartphone (or even a smart card for offline use), it might lower barriers for people currently excluded from the financial system. The U.S. Federal Reserve has noted that some advocates believe a CBDC could **reduce common barriers to inclusion and lower transaction costs**, which would particularly help lower-income households and those who rely on expensive alternative financial services ¹⁸ . For instance, government benefits or tax refunds could be delivered via CBDC wallets directly to individuals without bank accounts, speeding up payment and avoiding check-cashing fees ¹⁹ ²⁰ . While in

advanced economies like the U.S. and EU the unbanked population is a relatively small fraction, it is still significant (around 5% of U.S. households were unbanked as of 2019 ²¹). In developing economies, the inclusion argument is even more prominent, as seen with countries like India, Nigeria, or the Caribbean nations launching CBDCs explicitly to broaden financial access. In summary, a CBDC offers a government-backed digital payment method that could **reach communities left out by the banking sector**, provided user-friendly design and widespread access (including offline functionality for those without consistent internet) are achieved.

- **Payment Efficiency and Cost Reduction:** Proponents argue that a CBDC can make payments **faster, cheaper, and more efficient** – especially for domestic peer-to-peer payments and possibly for cross-border transfers. By offering a digital means of payment that settles in central bank money, a retail CBDC could reduce reliance on intermediaries and legacy payment networks that often involve fees and delays. Indeed, improving payment system efficiency is a key rationale cited by many central banks: introducing a CBDC could spur competition and innovation in payments, driving down transaction costs and improving speed ²². For example, a well-designed CBDC might enable **instant, 24/7 finality** of retail payments, as funds move directly between central bank accounts or tokens without needing the slow batching processes of traditional interbank settlements ²³ ²⁴. The potential efficiency gains are frequently compared to existing private-sector real-time payment initiatives. In the U.S., the advent of services like the RTP network and the FedNow service already address some of the speed issues in domestic payments ²⁵. However, CBDC advocates suggest that a **public digital currency** available to all could further streamline payments by providing a universally accepted, risk-free medium that doesn't depend on multiple correspondent banks or card networks, thus **lowering interchange fees and other costs**. Cross-border payments are a particularly pain point – they are often slow (taking days) and expensive. While international use of a retail CBDC raises complex issues, some foresee that networks of CBDCs or interoperable systems could drastically cut remittance costs and settlement times by reducing the intermediaries and providing a direct bridge between different countries' digital currencies ²⁶ ²⁷. In summary, the **payment efficiency** argument holds that CBDCs could modernize payments infrastructure for the public good, making transactions **quicker and less costly** for consumers and businesses.

- **Programmability and Innovation:** A CBDC would essentially be **digital programmable money** issued by the state, and this opens up opportunities for new financial innovations. By “programmability,” we mean that software code could be integrated with money to enable automatic features or conditional payments. Proponents claim that a CBDC could support **smart contract** capabilities, allowing money to be transferred or used only in accordance with predefined rules or triggers. For example, government payments could be automated (a CBDC could be programmed to release relief funds only when certain conditions are met, or to restrict use of funds to specific purposes if desired), and businesses could set up self-executing payments (like an escrow that releases funds upon delivery confirmation). While traditional bank transfers and payment systems also use software, a CBDC potentially allows **built-in programmable features at the currency level**, open to developers and fintech innovators to build new services. Additionally, a CBDC could enhance **transparency in money flows** for regulators and auditors (since digital transactions could be traceable in real-time), which might help in areas like tax collection or fraud detection ²⁸. Both the US and EU have highlighted programmability as a benefit; for instance, the ECB noted that a digital euro could enable new functionalities in payments that are not possible with cash or current electronic money, potentially fostering an ecosystem of innovative payment solutions in Europe. That said, central banks are generally cautious about directly programming money with policy

constraints (as it raises legal and ethical questions), but they acknowledge that providing a programmable platform could **unleash private-sector innovation**. In summary, a CBDC could serve as an **open platform for programmable finance**, where developers build applications on top of central bank money – ranging from automated micropayments (e.g. IoT devices paying each other) to complex conditional transactions – potentially boosting overall innovation and efficiency in the economy.

- **Payment System Resilience and Competition:** Introducing a CBDC could also improve the resilience of the payments ecosystem and **foster healthy competition**. In many countries, the digital payments market is dominated by a few large banks or private payment providers (for example, Visa/Mastercard in card payments, or big tech companies' wallets). A CBDC offers a public alternative and a **back-up payment medium** if other networks fail. Being a liability of the central bank, it carries no credit risk and could function even if private payment providers are down or in distress ²⁹ ³⁰. This redundancy can make the overall financial system more robust to shocks or outages. Additionally, the presence of a CBDC might pressure existing providers to improve their services (lower fees, extend operating hours, innovate features) to remain competitive, ultimately benefiting consumers. The Atlantic Council observes that many countries see CBDCs as a way to **inject competition and resilience into domestic payments markets** that might otherwise stagnate or remain expensive ²². In the EU, for example, officials have suggested that a digital euro could complement cash and ensure Europeans have a **public digital payment option** that isn't dependent on non-European card networks or tech platforms – serving strategic autonomy in payments. In the US, while some argue the current system is already efficient, others note that public options (like the Fed's own payment services) historically have coexisted with private options to broaden access (e.g., Fedwire coexists with private clearinghouses). Thus, a CBDC could act as a **public utility in payments**, potentially reaching where private firms may have less incentive to go (such as rural or low-profit markets), and ensuring that the **core of the monetary system remains under public oversight**. This argument ties back into sovereignty and inclusion, reinforcing that a CBDC could underpin a more inclusive and competitive financial infrastructure.

Arguments Against CBDCs

- **Privacy Risks and Surveillance Concerns:** The most commonly voiced concern about retail CBDCs is the potential **erosion of privacy** and the specter of government financial surveillance. By design, a CBDC could allow much more granular tracking of transactions than cash, since digital transactions leave an electronic trail accessible to some authority. Civil liberties groups and some lawmakers worry that a CBDC, if not carefully designed, **"could spell doom for [...] financial privacy"**, giving the government a direct window into the finances of every citizen ³¹. Unlike today's bank-based electronic payments (where personal data is fragmented across many private institutions and partly protected by bank secrecy laws), a CBDC might centralize a large amount of personal transaction data in the hands of the central bank or government. This raises the **fear of an "omniscient" state ledger**: in a worst-case scenario, authorities could monitor how individuals earn and spend every penny, or even program the CBDC to control spending habits. Critics often point to China's digital yuan as a cautionary example, arguing it could enhance state surveillance and control. In democratic jurisdictions, the concern is that even if authorities today have no ill intent, the architecture of a CBDC could be misused by future governments or via cyber intrusions, undermining freedoms. These privacy issues are taken seriously in the EU – the European Data Protection Board has insisted that the digital euro be designed with *privacy by default*, recommending features like an offline mode

for low-value transactions that would not be traceable ⁷ ³² . The ECB and Fed have repeatedly stated that any CBDC **must protect consumer privacy** and that they would not proceed with a design that allows unrestricted surveillance ³³ ³⁴ . Nevertheless, skeptics note that **even “privacy-preserving” CBDCs will likely not be as anonymous as cash**. Anti-money-laundering (AML) and counter-terrorism laws demand a certain degree of transparency, so at best small transactions might be anonymized while larger ones are monitored. The prospect of having one’s financial life potentially observed (or even automatically analyzed) by government systems chills many. Thus, **privacy concerns remain a potent argument against CBDCs** in the US and EU alike, reflected in public consultations where citizens overwhelmingly voice fear of “Big Brother” tracking their payments ⁶ . If these concerns are not adequately addressed, they could erode trust in a CBDC and even spur political opposition (as seen in the US, where several state-level initiatives and politicians have opposed CBDC on grounds of protecting financial privacy and liberty).

- **Potential for Government Overreach and Control:** Related to privacy, but distinct in emphasis, is the concern about **state power and financial surveillance**. Detractors argue that a CBDC could empower governments to a dangerous degree, enabling not just surveillance but also direct control over individuals’ finances. In a CBDC system, technically a central authority could **freeze accounts or even enforce spending restrictions** with a keystroke, since all accounts or tokens are within a centralized network. This raises alarms about authoritarian abuse – for example, the government could theoretically bar certain transactions (say, prohibit donations to disfavored political groups) or confiscate funds more easily. While such actions can also occur in the current banking system under court orders, the **ubiquity and centralization** of a CBDC might make abuse easier or more tempting. The Cato Institute warns that a CBDC would establish a “direct line” between citizens’ financial activity and the government, **entrenching a surveillance regime** far beyond current financial monitoring ³¹ . Even outside of intentional abuse, some point out that merely concentrating so much sensitive data in one system increases the risk of *unauthorized access* or data breaches. If hackers or foreign adversaries compromised a CBDC database, they could gain insight into vast numbers of transactions or potentially disrupt accounts. Thus, opponents argue that CBDCs pose **unacceptable risks to financial freedom**, effectively creating the technical infrastructure for a surveillance state or financial repression. These concerns have shaped policy: for instance, U.S. Federal Reserve officials have repeatedly stressed they would only consider an intermediated CBDC (where private institutions handle retail user interaction and maintain some data separation) rather than a Fed-run direct account system ³³ . Likewise, European lawmakers have inserted provisions for **strict data segregation and limited data retention** in draft CBDC legislation to prevent misuse ³² . Despite such safeguards, the **surveillance potential** inherent in a CBDC remains a fundamental philosophical objection for many, especially in the U.S. where wariness of government power runs high.

- **Bank Disintermediation and Financial Stability Risks:** A critical economic concern is that a widely adopted retail CBDC could **disintermediate commercial banks**, disrupting the credit creation process and potentially amplifying financial instability. In today’s system, banks rely on customer deposits as a primary source of funding for loans. If people can hold money in risk-free CBDC accounts or wallets, they might shift a significant portion of their deposits out of banks and into the CBDC, especially in times of stress. This **flight of deposits** could shrink the funding base for banks, curtailing their ability to lend or forcing them to raise interest rates on deposits (increasing their funding costs) ³⁵ . The Atlantic Council notes that if citizens pull too much money out of banks at once to acquire CBDC, it could *trigger bank runs* and impair banks’ lending capacity, potentially

sending shocks through interest rates and credit availability ³⁶. Central banks acknowledge this risk: the U.S. Fed's analysis observed that a near-perfect substitute for bank deposits (especially an interest-bearing CBDC) could **reduce aggregate bank deposits and raise bank funding costs**, unless mitigated by policy tools ³⁷ ³⁸. In a crisis, the existence of a CBDC may make runs more severe – depositors could rapidly move money into the ultra-safe CBDC at the first sign of trouble, draining liquidity from banks **with a few taps on a phone**. Traditional backstops (deposit insurance, central bank lender-of-last-resort) might not prevent such digital runs because of the ease and speed of conversion ³⁹. This dynamic could increase the fragility of banks, especially smaller banks or those already under stress. Additionally, if banks lose deposits, they might rely more on wholesale funding or central bank funding, with broader impacts on the financial system. To address these issues, various mitigation measures have been proposed – such as limiting the amount of CBDC an individual can hold or not paying interest on CBDC – to make CBDC less attractive relative to bank deposits ⁴⁰ ⁴¹. Indeed, design choices (like caps or tiered remuneration) could reduce disintermediation risk, but those features might also limit the usefulness of a CBDC. Critics thus question whether introducing a CBDC, with these significant **structural repercussions on banking**, is worth the trade-off. They argue it could inadvertently lead to a form of “narrow banking” or spur credit tightening unless carefully managed. Both U.S. and European banking communities have voiced **strong reservations** about CBDCs on these grounds, fearing an erosion of their deposit base. In the U.S., some regional Federal Reserve Bank leaders and legislators have echoed these concerns, suggesting that any CBDC should be explicitly non-interest-bearing and possibly have quantity limits to avoid undermining banks. In the EU, a report by the European Banking Federation similarly warned that an improperly designed digital euro could siphon hundreds of billions from banks, affecting lending to the real economy. In summary, the **bank disintermediation risk** is a major argument against CBDCs: it highlights potential unintended consequences for financial stability and credit provision that could result from a large-scale shift of money from commercial banks to the central bank.

- **Cybersecurity and Technical Resilience Risks:** A CBDC ecosystem would present a **high-value target for cyber attacks** and introduce new operational complexities, raising concerns about systemic risks in the event of technical failures. Unlike the relatively decentralized and diverse current payment systems, a CBDC could concentrate much of a nation's payment flow in one infrastructure. If that system were to be compromised or suffer an outage, the impact could be far-reaching. For example, a successful hack might allow attackers to **steal large sums or disrupt payments** across the entire economy. Central banks are keenly aware of this, noting that any CBDC must be built with extreme resilience to cyber threats ⁴². The Atlantic Council highlights that CBDCs “carry operational risks” since they would be vulnerable to cyber attacks and thus need robust defenses and contingency plans ⁴². The technical challenge of securing a CBDC is non-trivial: it would likely involve new hardware, software, digital wallets, possibly distributed ledger technology (DLT) or other novel platforms – all of which would need to be **hardened against attack**. Nation-state hackers or cybercriminals might see a CBDC system as a prize target for theft or disruption (imagine an enemy state trying to cripple an opponent's economy by bringing down its digital currency network). Additionally, even absent malicious attacks, **system glitches or power/network outages** could pose risks. If people rely on the CBDC for daily transactions, any downtime could paralyze commerce. Thus, critics argue that introducing a CBDC could **increase systemic operational risk** – the central bank would now be responsible not just for sound money, but also for running a near-100% uptime digital platform catering potentially to millions of users. The cost and complexity of maintaining military-grade security and resilience in a retail system might be

enormous. Moreover, as technology evolves, the CBDC infrastructure would require constant updates and vigilance against emerging threats (for instance, concerns have been raised about future quantum computing breaking cryptographic protections of digital currencies). In contrast, cash and decentralized bank networks today don't present a single point of failure in the same way. For these reasons, skeptics urge that **cyber risk** could outweigh the touted benefits of a CBDC – a sentiment expressed in both U.S. congressional hearings and European consultations. Any CBDC launch would thus need extremely rigorous testing (many central banks are conducting pilot programs and sandboxes to gauge cybersecurity readiness ⁴³). But the argument remains: by creating a new centralized digital infrastructure, central banks could be **inheriting new forms of risk**, and a failure in a CBDC system might have **devastating confidence effects** on the broader financial system. This contributes to the cautious approach seen in jurisdictions like the U.S., where officials often mention the need to ensure a CBDC, if ever introduced, is “cyber resilient by design” ⁴⁴ – a high bar that might ultimately prove too challenging.

- **Role of the Private Sector and Opportunity Cost:** Some opponents also argue that introducing a CBDC could **crowd out private-sector innovation** or be an inefficient use of resources if private solutions can achieve similar goals. The development and maintenance of a CBDC could cost billions in technology investment and ongoing operational expenses. If similar benefits – such as faster payments or financial inclusion – can be attained through improving existing systems (like instant payment networks, fintech mobile banking, or regulated stablecoins), then a CBDC might not justify the opportunity cost. In the U.S., this argument often surfaces in the form of: *Why not improve what we have (e.g., promote FedNow, reform payments law, encourage responsible stablecoins) instead of embarking on a risky CBDC project?* Critics note that the U.S. payment system, while not perfect, is already **safe, fast, and innovating** in many ways; they question whether a CBDC would truly add much or if it's a “solution in search of a problem.” There is also worry that a public-sector CBDC could **stifle nascent private digital currency efforts**. For instance, if the central bank offers a widely accessible digital currency, consumers might have less incentive to use privately issued payment tokens or stablecoins, potentially dampening innovation by fintech firms (some of whom are exploring tokenized deposits or other alternatives). The counter-argument from CBDC advocates is that public and private innovations are not mutually exclusive – a CBDC could provide the foundational infrastructure upon which private actors build user interfaces or financial products (much like private banks build services on top of central bank money today). Nonetheless, the **philosophical divide** is clear: one side sees a CBDC as a modern extension of central bank responsibilities in the digital age, while the other side sees it as an overreach that could unnecessarily disrupt a dynamic private sector and pose risks the private sector would avoid. This debate is evident in the divergent U.S. and EU approaches. The U.S. has so far leaned toward letting the private sector (including stablecoin issuers and banks) drive digital currency innovation, intervening with regulation rather than creating a digital dollar; the EU, while involving private intermediaries in a potential digital euro distribution, has been more willing to consider direct public sector involvement in digital payments, citing **market gaps and public good aspects**. The outcome of this debate will significantly shape whether and how a CBDC is implemented in each jurisdiction.

In summary, CBDCs inspire both hopeful visions of a more accessible, efficient monetary future and serious concerns about new risks to privacy, financial stability, and the established financial order. The U.S. and EU are proceeding carefully, with the U.S. currently more hesitant (especially on a retail CBDC) and the EU cautiously crafting a framework for possibly issuing a digital euro in the coming years. Policymakers must

weigh these pros and cons, and many have emphasized that any decision on CBDC issuance will ultimately be a political choice as much as a technical one, given the broad societal implications.

Stablecoins

Stablecoins are privately issued digital currencies that maintain a **stable value** relative to an asset (most commonly a fiat currency like the dollar or euro). They achieve this stability through various mechanisms, most often by holding reserve assets that fully or largely back the coins in circulation (for example, \$1 in reserve for each token pegged to \$1). Stablecoins emerged from the cryptocurrency markets as a bridge between volatile crypto assets and traditional money – they allow crypto traders to park value in a stable unit without leaving blockchain platforms. However, stablecoins have since expanded in usage and ambition, now being touted as a tool for mainstream payments, remittances, and even as building blocks for a new digital financial infrastructure. The regulatory stance on stablecoins is still evolving. In the US, stablecoins exist in a patchwork regulatory environment: some issuers operate under state money transmitter licenses or trust charters (e.g. New York’s BitLicense or trust company regime), and federal regulators have issued guidance on banks’ involvement with stablecoins. But there is not yet a unified federal law specific to stablecoins – an issue that Congress has been examining, with multiple bills proposed since 2021 and intensifying efforts in 2023–2025 to enact legislation for prudential oversight of payment stablecoins ⁴⁵. By contrast, as noted, the EU’s MiCA law (taking effect 2024–2025) provides a comprehensive regulatory umbrella for stablecoins across member states ¹³. This section discusses key arguments made in favor of stablecoins and those made against them, again focusing on policy and technical facets relevant to US and EU contexts.

Arguments in Favor of Stablecoins

- **Payment Innovation and Efficiency:** Stablecoins are often hailed as a major **payment innovation**, bringing the benefits of blockchain technology to everyday transactions while avoiding the wild price swings of typical cryptocurrencies. Advocates argue that stablecoins enable **fast, low-cost, global payments** that can settle 24/7, unhindered by the operating hours or geographical limitations of traditional banking networks ⁴⁶. Because stablecoin transactions occur on distributed ledgers, they can in theory transfer value directly between parties within minutes or seconds, much like other crypto transactions, but with the price stability of fiat money. This can be especially advantageous for cross-border payments and remittances: a stablecoin (say, USD-backed) can be sent from a user in country A to a user in country B almost instantaneously, bypassing the correspondent bank chains that might take days and charge high fees for an international wire ⁴⁷. Proponents note that stablecoins “transcend banking hours and global borders,” potentially offering improvements in **speed, cost, and transparency** over current payment rails ⁴⁸. Unlike some domestic real-time payment systems that are limited to business hours or specific networks, public blockchain networks operate continuously. Furthermore, transactions recorded on-chain are transparent and traceable (in pseudonymous form), which can increase **accountability** and reduce certain fraud risks. Stablecoins also present a uniform digital dollar (or other currency unit) that can be used across different platforms and services, potentially simplifying interoperability compared to siloed banking systems. For instance, a user can move a USDC stablecoin from an exchange, to a personal wallet, to a merchant’s wallet without currency conversion or reliance on card processors. Corporate players see potential too: major payment companies (like Visa and Stripe) and fintechs have begun integrating stablecoin capabilities, citing efficiency gains. Overall, the **innovation thesis** is that stablecoins act as a **modern payments infrastructure**, leveraging blockchain’s strengths – they can reduce

settlement times from days to seconds, cut out layers of intermediaries (and their fees), and provide new features such as atomic (simultaneous) settlement and simplified cross-currency transactions (via holding multiple stablecoins). Real-world data shows stablecoin usage is already significant in the crypto economy (over \$25 trillion in on-chain transaction volume per year as of 2025, per some estimates ⁴⁹) and growing in areas like merchant payments in certain regions ⁵⁰ ⁵¹. This momentum suggests to supporters that stablecoins are a **viable path toward a more efficient and inclusive payment system**, driving competition against entrenched banking networks and fostering fintech innovation.

- **Financial Inclusion and Access:** Proponents also highlight the role of stablecoins in promoting **financial inclusion**, especially on a global scale. By allowing anyone with an internet connection to hold and transfer a stable-valued asset, stablecoins can provide access to digital dollars or euros for people who may not have reliable access to the corresponding banking system. For example, someone in a country with an unstable currency or limited banking infrastructure could use dollar-pegged stablecoins as a **store of value and medium of exchange**, shielding themselves from local currency inflation and accessing the stability of the dollar without a U.S. bank account ⁵². In underbanked regions, stablecoins (combined with mobile phone wallets) can effectively bring **digital payment services to populations that traditional banks have not reached**. The cost advantages of stablecoins can also aid inclusion: they are touted as a cheaper way to send remittances to developing countries, since transaction fees on crypto networks might be lower than fees for money transmitters or banks (though network congestion and on-ramp/off-ramp fees can complicate this in practice). For instance, a migrant worker could convert local cash to a stablecoin via a local agent or crypto exchange, send it abroad in minutes, and the recipient could convert to their local currency – potentially saving on typical remittance fees that average ~5–7% ⁵³. Additionally, stablecoins don't require the sender or receiver to have a credit history or meet stringent account opening requirements; a basic wallet and internet access suffice, lowering **barriers to entry**. This open accessibility (24/7 and globally reachable) is seen as a democratizing force in finance. It's no surprise that stablecoin usage has grown in countries with capital controls or high inflation, where people turn to stablecoins as a lifeline to hold value in dollars. Even within advanced economies, stablecoins could serve those dissatisfied with traditional banking – for example, people looking for faster settlement of peer-to-peer transfers than their bank offers, or those who prefer keeping funds outside of banks due to mistrust or fees. **U.S. policymakers acknowledge this potential:** a 2021 President's Working Group report noted stablecoins' ability to improve payments, including for underserved communities, if properly regulated. However, it also cautioned that many inclusion benefits hinge on whether users can easily convert stablecoins in and out of fiat – something that often still involves having a bank or fintech account. Indeed, critics point out that the **inclusion benefits of stablecoins are not automatic** – we address those critiques later. But as a pro argument, stablecoins are clearly **expanding access**: for example, the Ukrainian government in 2022, amid war, encouraged the use of crypto (including stablecoins) for aid and transfers when banking was disrupted. In summary, stablecoins offer a borderless, accessible form of money that can integrate the **unbanked and underbanked** into the digital economy, at least according to supporters. They view stablecoins as complementary to public-sector efforts: while CBDCs could also tackle inclusion domestically, stablecoins (often denominated in globally trusted currencies like USD) are already filling a need in many parts of the world where the local alternatives are inadequate.
- **Programmability and DeFi Integration:** Stablecoins are a foundational component of the burgeoning **decentralized finance (DeFi)** ecosystem and are valued for their **programmability** –

the ease with which they integrate into digital contracts and applications. Unlike fiat money in traditional banks, which requires intermediaries and legacy systems to move around, stablecoins exist natively on blockchain platforms where they can interact with **smart contracts**. This means stablecoins can be used in automated, programmable transactions: for example, a smart contract can be coded to pay 1 USDC to a freelancer every hour worked, or to release funds to a supplier when an IoT sensor confirms delivery of goods. Such arrangements are either cumbersome or impossible with traditional bank money but relatively straightforward with stablecoins. The Gemini exchange (and others in the crypto industry) emphasize that **smart contracts can utilize stablecoins to automate payments, escrow services, subscriptions, and more, all with built-in logic enforced by code** ⁵⁴. This capability unleashes a wide range of financial innovation. Already, stablecoins are heavily used in DeFi lending and borrowing platforms as the unit of account for loans; they serve as the primary form of collateral in many protocols (users deposit stablecoins to earn yield or to back other synthetic assets) ⁵⁵. They also enable new models like automated market makers, yield farming, and liquidity pools, which depend on having a stable unit to mitigate the volatility of other crypto assets. Beyond DeFi, stablecoins can power use cases like **programmable business payments** – for instance, a company’s treasury could use stablecoin-based smart contracts to manage payroll or supplier payments with detailed conditions and audit trails. Some pilot projects have shown that financial instruments like trade finance, supply chain payments, or even insurance payouts can be made more efficient with programmable money (e.g. instant payment when a flight delay is confirmed for travel insurance). In the absence of a CBDC with similar features, stablecoins are currently the vehicle providing this **“money lego”** functionality on public blockchains. Moreover, the existence of a stable programmable digital dollar encourages developers to build financial applications that are globally accessible – a startup can create a lending app using stablecoins without needing integration with each country’s banking APIs. Proponents argue that this **open innovation environment** could lead to more competitive and diverse financial services. For policy makers, the point is that stablecoins demonstrate how private-sector creativity can extend the capabilities of money. Some even suggest that a well-regulated stablecoin ecosystem could achieve many of the same benefits envisioned for retail CBDCs (like programmability, inclusion, and efficiency), but without the government having to build and operate the infrastructure. Thus, the programmability and **composability** of stablecoins – their ability to easily plug into digital financial applications – is a strong argument in their favor, particularly in discussions about keeping innovation onshore. (For example, U.S. legislators have expressed concern that without clear rules, stablecoin innovation might leave for more permissive jurisdictions, ceding leadership in the fintech space.)

- **Market Competition and Choice:** Stablecoins also introduce **competitive dynamics** into the currency and payments space. They effectively allow private entities (companies or decentralized projects) to offer an alternative to bank deposits and other payment methods, which can pressure incumbents to improve. From a consumer perspective, stablecoins provide another **choice for holding value and making payments**. If one is dissatisfied with their bank’s fees or speed, they might opt to use a reputable stablecoin through a digital wallet for certain transactions. This competition can spur better service – indeed, stablecoin issuers have been innovating with features like near-instant blockchain transfers, interest-bearing accounts (some issuers pass on some yield from reserves to users), and integration with e-commerce platforms. The existence of multiple major stablecoins (USDT, USDC, BUSD, etc., and euro or other currency stablecoins) also fosters competition among issuers, which could drive improvements in **transparency** and **reserve management** as they vie for user trust. For example, Circle (issuer of USDC) started providing

monthly audited attestations of its reserves in response to scrutiny, as a way to differentiate itself with higher transparency standards, thereby pressuring other issuers to follow suit to remain credible ⁵⁶. In the broader monetary policy sense, some economists argue that private stablecoins competing with traditional bank money could lead to beneficial innovations and maybe even discipline central banks (a controversial notion akin to “free banking” where multiple private monies circulate – though in practice major stablecoins are all linked to central bank money as their reserve asset). While central banks generally do not want to outsource currency issuance to private firms entirely, the presence of a well-regulated stablecoin sector could coexist with public money and provide **niche solutions** (for instance, tailored cross-border payment services, or integration with specific tech platforms) that a one-size-fits-all public currency might not achieve. U.S. regulators have at times recognized that **payment stablecoins, if properly regulated, could complement the existing payment system** by providing additional options and redundancy. For example, the Federal Reserve’s vice chair in 2022 noted that stablecoins could co-evolve with future CBDCs or improvements like FedNow, potentially catering to different preferences (some users might prefer the credit-risk-free nature of a CBDC, others the features of a private stablecoin). In summary, stablecoins add **competitive pressure and consumer choice** in currency and payments – a dynamic that can drive overall improvements in the financial system’s efficiency and customer-focus.

- **Global Economic Dollarization (Prospective Benefit):** From a U.S. perspective, some view the rise of dollar-pegged stablecoins as **reinforcing dollar influence globally**. Because most stablecoins are denominated in USD, their adoption abroad can extend the use of the dollar in digital commerce and as a store of value in crypto markets. This *could* bolster the dollar’s reserve currency status by embedding it into the digital economy of the future. Indeed, over 99% of stablecoin value is USD-linked ⁹, and these stablecoins are used worldwide. Proponents argue that the U.S. has a strategic interest in **encouraging dollar-backed stablecoins** (under appropriate regulation) because it effectively exports U.S. monetary stability and keeps the dollar central as finance evolves. This viewpoint suggests a geopolitical benefit: if, say, a digital euro or digital yuan comes online, having robust USD stablecoins ensures the dollar remains the default digital currency in many settings, thus **supporting U.S. monetary sovereignty internationally**. Some U.S. lawmakers and experts have indeed made the case that hindering stablecoin development could push users toward non-dollar alternatives in crypto markets, which in the long run might erode the dollar’s prominence ⁵⁷. By contrast, **embracing stablecoins** (with safeguards) could lock in the dollar’s role. It’s worth noting this is a double-edged sword: while dollar stablecoins abroad can increase dollarization (which might benefit the U.S. strategically), it can pose challenges for other countries’ monetary sovereignty (a concern we will discuss as a “con” from the foreign perspective). Nonetheless, as a “pro” argument within the U.S., the growth of USD stablecoins can be framed as a sign of the world’s continued trust in the dollar, and something that U.S. policy might leverage rather than suppress. The EU similarly might consider supporting euro-denominated stablecoins to promote the euro’s global reach if a full CBDC is slow to arrive – indeed, private euro stablecoins (like the France-based EURCV) have begun to appear ⁵⁸, and EU officials have debated whether these could play a role in internationalizing the euro (though MiCA places strict rules on issuers to ensure they don’t threaten financial stability).

Arguments Against Stablecoins

- **Peg Stability and Runs:** A central risk of stablecoins is the possibility that they may **not perfectly maintain their peg** to the reference asset, leading to loss of confidence and potentially rapid redemptions or “runs” on the stablecoin. Users expect 1 stablecoin token to equal \$1 (or 1 unit of

whatever currency) at all times. However, history has shown this parity can slip: numerous stablecoins have temporarily **lost their peg** in secondary markets, and some have suffered catastrophic collapses. For instance, in March 2023, Circle's USD Coin (USDC) – one of the largest stablecoins – **briefly de-pegged** from the dollar, trading as low as ~\$0.88 when it was revealed that some of its reserve cash was stuck in the failing Silicon Valley Bank ⁵⁹. Although USDC later restored its peg after assurances and liquidity measures, the incident highlighted that even fully reserved stablecoins can break the buck if users doubt the safety or liquidity of reserves. Far more dramatically, in May 2022 the algorithmic stablecoin **TerraUSD (UST)**, which was partly stabilized by market incentives rather than full reserves, entered a death spiral and **collapsed from \$1 to nearly zero value**, wiping out \$18 billion in market value and triggering broader crypto market turmoil ⁶⁰. This collapse underscored the extreme fragility of certain stablecoin designs. Even aside from algorithmic designs, asset-backed stablecoins face risks: if reserves are not 100% liquid or guaranteed, a sudden surge in redemptions could force fire-sales of reserve assets, causing the issuer to struggle to maintain the peg. There is also the risk of operational failures – for example, if the blockchain network gets congested or an oracle fails, arbitrage that normally keeps price in line could be delayed. **Runs on stablecoins** are a serious concern for regulators because they could not only harm consumers but also send shockwaves through funding markets (if, say, reserves are in commercial paper or other short-term instruments, forced selling could impact those markets). The European Central Bank has warned that large stablecoins could be “systemic” in that a loss of confidence might disrupt money markets or payment flows ⁶¹. The fact that stablecoins are **pegged, not actually the fiat currency** they emulate, means users must trust the issuer and the backing assets at all times – a scenario somewhat akin to historical banknotes issued by private banks (which often traded below face value if doubts arose about the bank). Critics argue this arrangement is inherently less robust than holding actual central bank money or insured bank deposits. Each stablecoin introduces an **additional layer of credit risk** (the solvency of the issuer or quality of reserve assets) and possibly market risk. The experiences with UST and other failed stablecoins (like Iron Finance's IRON or various smaller algorithmic tokens) show that confidence can evaporate quickly, leaving holders with losses. Even Tether's USDT, the largest stablecoin, has on occasion dropped a few percentage points below \$1 during market panics, reflecting persistent doubts by some about its reserves. **Preventing de-pegging** is thus a top regulatory objective: proposed laws (including those in the US and under MiCA) would require stablecoin issuers to maintain high-quality, liquid reserves and grant redemption rights to holders to bolster confidence. Nonetheless, skeptics maintain that no matter the rules, the risk of a peg break can't be entirely eliminated – extreme events or mismanagement can still occur. Therefore, the **peg instability risk** is a primary argument against allowing stablecoins to become too widespread without robust safeguards. It's often cited that unlike bank deposits (which benefit from deposit insurance up to a limit and central bank liquidity backstops), stablecoin holders currently have **no insurance or lender-of-last-resort** to rely on if the peg starts to slip. This lack of a safety net makes stablecoins prone to the equivalent of bank runs, which could be chaotic especially if a stablecoin is used at large scale in the economy.

- **Reserve Transparency and Quality:** Another significant concern is the **opacity and quality of stablecoin reserves**, which directly relate to whether a stablecoin truly deserves confidence. Stablecoins like USDC and USDT claim to be backed 1-for-1 by reserves, but historically there have been issues around how those reserves are invested and whether issuers provide sufficient disclosure. **Transparency** is vital: users (and regulators) need assurance that for every \$1 of stablecoin in circulation, there are equivalent safe assets in reserve. In the past, some issuers have

been less than fully transparent. The most notable case is Tether (USDT), which for years did not provide detailed public audits of its reserves and in 2021 settled with U.S. authorities over allegations that it misrepresented the backing of USDT. It was revealed that at times Tether held a large portion of reserves in commercial paper and other instruments, not just cash or Treasury bills, contrary to the impression of a “cash-backed” coin ⁵⁶. This led to accusations that issuers had **misled the public about holding 100% cash-equivalent reserves** when in fact they held riskier short-term debt to earn yield ⁶². Such practices introduce credit and liquidity risk – if the commercial paper market froze or those assets lost value, the stablecoin could become under-collateralized. Even aside from malfeasance, stablecoins might have practical difficulty disclosing and managing reserves in real time. They operate in a largely unregulated space (until new laws like MiCA enforce standards), and standards of audit and reporting vary. **Lack of transparency undermines trust:** users may fear that an issuer could be engaging in risky behavior (like lending out reserves, or investing in long-duration assets) to profit off the float, which could jeopardize redemption ability in a crisis. This was a key critique by central bankers – that stablecoin issuers, unlike banks, don’t have established oversight and could be a weak link if they fail to hold genuinely safe assets. Improving this is a focus of regulation: the EU’s MiCA will require regular reports and asset quality criteria; proposed U.S. bills similarly mandate that reserves be held in cash or very safe assets and that certified audits be provided. Until these regimes are in force, however, **transparency concerns remain an argument against trusting stablecoins too much**. Even with disclosure, there’s the question of **governance and oversight**: a stablecoin operator could in theory change its reserve composition or policies, so users rely heavily on the issuer’s credibility and competence. Unlike a central bank which has public mandates and is lender of last resort, stablecoin issuers are often private companies with profit motives, which might conflict with the absolute safety of reserves. Additionally, even if reserves are transparent and high-quality, there’s the **settlement risk** of how redemption works – many stablecoins rely on users going through a limited set of authorized brokers or the issuer itself to redeem for fiat, which might not scale well during stress. If too many users redeem at once, operational bottlenecks could delay payouts, again affecting trust. All these issues make regulators worry that stablecoins could present a **“black box” risk** in the financial system. As the Gemini report notes, a lack of transparency “destroys user faith” ⁶³ and is a key limitation on stablecoins’ reliability. Thus, critics demand rigorous auditing and even **public oversight** of reserves (some have suggested that stablecoin reserves should perhaps be held at central banks to assure quality – effectively turning them into narrow-bank like structures). Until such measures are in place, the prudent stance of many authorities is to treat stablecoins cautiously, as their backing can be murky and not as trustworthy as traditional insured deposits or central bank money.

- **Financial Stability and Systemic Risk:** Beyond the risks to individual users, regulators are concerned that large stablecoin arrangements could pose **systemic risks to the broader financial system**. One aspect of this is the aforementioned risk of runs and the impact on short-term markets. If a major stablecoin were to face a run, the forced liquidation of its reserve assets (which could include tens of billions in Treasury bills, for example) could disrupt those markets or spike interest rates temporarily. There’s also the scenario where stablecoin popularity causes a structural shift in the financial system: if households and firms move sizable funds out of bank deposits into stablecoins, it could resemble bank disintermediation similar to the CBDC case. The difference is that stablecoin reserves might still reside in banks, but often concentrated in a few custody accounts or invested in money market instruments. The Atlantic Council analysis notes that when a customer shifts money from a bank deposit to buy stablecoins, **the bank loses a “sticky” retail deposit and instead the funds might end up as an “unsecured wholesale” deposit from the stablecoin**

issuer (if the issuer parks reserves in a bank) ⁶⁴. Unsecured wholesale deposits are more flighty and can weaken a bank's liquidity ratios ⁶⁵. In effect, widespread stablecoin adoption could **diminish the stability of bank funding**, because stablecoin issuers might withdraw their large deposits quickly if needed (indeed, during the March 2023 SVB episode, Circle attempted to withdraw \$3 billion in one day to protect its reserves ⁶⁶, an action that contributes to bank distress). Thus stablecoins can act as an intermediary that *increases* volatility in traditional finance: money sloshes in and out of banks or money markets depending on crypto-market sentiment. Another systemic issue is the **interconnectedness with the broader crypto ecosystem**. If stablecoins enable a large parallel financial system (DeFi, etc.), issues in that realm – like smart contract hacks, sudden loss of confidence, or rapid unwinding of leveraged positions – can transmit stress to stablecoins, which then might transmit it to the real economy if people suddenly cash out en masse. In a scenario where a stablecoin became a mainstream means of payment, a loss of confidence could immediately impair the ability of people and businesses to transact, akin to a payment system outage or a money market fund breaking the buck (as happened in 2008). Policymakers like the U.S. Financial Stability Oversight Council (FSOC) have stated that unregulated stablecoins could reach a scale where their failure might have **systemic consequences**, comparing them to money market funds or other shadow banking products. The term “stablecoin run” has thus entered the regulatory lexicon, prompting calls for banks or bank-like regulation for issuers. Additionally, central banks worry about **monetary policy implications**: if stablecoins in foreign currency become widely used in another country, that country's central bank could lose some control over money supply (a concern under the heading of monetary sovereignty). For instance, if euro area residents started heavily using USD stablecoins, the ECB might find its policy transmission weakened – which is one reason MiCA allows limiting non-euro stablecoins if they threaten policy effectiveness ¹³. In sum, the argument is that stablecoins, especially if poorly regulated, **introduce new forms of systemic risk**: they can destabilize funding markets, facilitate digital runs, and complicate central banks' ability to manage the economy. Many of these risks mirror historical ones (like bank runs or money market collapses) but in a new technological wrapper. Critics thus contend that without strict safeguards, stablecoins could become a weak link in the financial system – and they often use this point to argue for preemptive regulation or even the development of safer public alternatives (like CBDCs) to replace the need for stablecoins.

- **Illicit Finance and Security Concerns:** Stablecoins have also drawn criticism for their potential use in **illicit finance**, including money laundering, terrorist financing, sanctions evasion, and other black-market activities. Because stablecoins combine some advantages of crypto (pseudonymity, global transfer) with the stability of fiat, they can be attractive to bad actors seeking to move value outside of the regulated banking system. There have been multiple instances and studies indicating that criminals and sanctioned entities leveraged stablecoins to transfer funds. For example, the analytics firm Chainalysis reported that stablecoins (particularly Tether's USDT) have been used to **evade capital controls and sanctions**, facilitating transactions that authorities cannot easily track through banks ⁶⁷. The Wall Street Journal and others have documented how billions in USDT flowed to entities linked with sanctioned nations, highlighting enforcement blind spots ⁶⁷. Unlike bank transfers, which go through monitored channels with KYC (Know-Your-Customer) and screening, stablecoin transfers between private wallets can occur without any intermediary oversight. While all transactions are recorded on a public ledger, sophisticated users can obscure their identity or layer transactions in ways that make it hard to tie addresses to individuals (often using mixing services, decentralized exchanges, or simply by transacting outside of regulated exchanges). This pseudo-anonymity raises alarms for regulators like the U.S. Treasury and global bodies like the FATF, which

worry that **widespread use of stablecoins could undermine AML/CFT (anti-money laundering and countering financing of terrorism) efforts** if not properly governed. There is also a **sanctions dimension**: as one example, North Korean hackers who amassed cryptocurrency through cyber attacks have been known to convert some of it to stablecoins to more easily spend or launder it, thereby dodging traditional financial blockades. Moreover, stablecoins could be used to circumvent currency export restrictions – someone in a country with strict capital controls could convert local currency to a stablecoin (through unofficial channels) and move value abroad in digital form, outside of official oversight. This is essentially an extension of long-standing crypto concerns, but stablecoins make the proposition more practical by removing volatility. Due to these factors, **law enforcement agencies have raised red flags**. The EU's approach under MiCA and related legislation is to treat crypto asset transfers like wire transfers under the Travel Rule, meaning identifying information must travel with transactions above a certain threshold – but enforcing this in decentralized networks is challenging. U.S. regulators likewise have reminded stablecoin issuers and exchanges of their obligations to monitor transactions and report suspicious activity. Critics argue that until a robust regulatory and compliance framework is applied, stablecoins represent a **compliance gap** that illicit actors will exploit. On the flip side, some in the crypto industry note that the public ledger can aid investigations (blockchain analytics can trace flows in ways banknotes can't be traced). But this requires linking addresses to real actors, which often hinges on regulated exchange data or mistakes by criminals. In any case, the **illicit finance argument** remains a key part of the case against allowing stablecoins unfettered growth: officials fear a scenario where a large shadow payment network emerges facilitating crime or sanctions-busting. This concern has been explicitly cited by the U.S. President's Working Group and by European authorities as justification for strict regulation (or even potentially a preference for CBDCs, which could be more easily monitored). For example, in Europe the ability to limit non-euro stablecoins is partially to prevent **currency substitution that could hinder oversight of financial flows** ¹³. Thus, stablecoins are seen as a potential *weak link in the global fight against illicit finance* if not properly controlled, strengthening the argument that any benefit they offer must be balanced against this significant national security risk.

- **Regulatory Fragmentation and Arbitrage**: The global nature of stablecoins and the uneven regulatory landscape create worries about **fragmentation and regulatory arbitrage**. Currently, different jurisdictions are taking very different approaches to stablecoin regulation: the EU's comprehensive MiCA vs. the U.S.'s lack of a specific regime (with oversight happening through enforcement of securities, commodities, or banking laws case-by-case), vs. some countries banning certain stablecoins, and others having no rules at all. This patchwork of regulations leads to **confusion and inefficiency** in the market ¹⁴. Legitimate projects face a compliance headache trying to navigate varying requirements, which could stifle innovation or keep services out of certain markets. At the same time, issuers might engage in regulatory arbitrage – setting up shop in more permissive jurisdictions (or offshore) to avoid stringent rules, which undermines the effectiveness of stricter regimes. For instance, if one country requires full reserve transparency and licensing, an issuer might domicile elsewhere with looser rules and still serve that market via the internet, unless that country bans it outright. This fragmentation also means that **consumer protections and risk standards differ greatly** from one stablecoin to another. A user might not easily discern which stablecoin is regulated and robust and which is not, especially when transacting globally. Additionally, inconsistent treatment can create **competitive imbalances** – e.g., a fully regulated stablecoin might have higher compliance costs and slightly less agility than an unregulated competitor, potentially pushing users toward the less regulated option because it's cheaper or more prevalent, thereby undermining the policy goal. On a systemic level, the lack of international

standards could lead to gaps that bad actors exploit (tying back to illicit finance) and to friction where stablecoins are not universally accepted due to legal uncertainty. For example, without harmonization, a stablecoin widely used in one region might be restricted in another, preventing it from achieving the network effects that give payments their efficiency. This is partly why experts call for **global standards for stablecoins** – to ensure that no significant stablecoin activity falls through the cracks, and to enable interoperability and clarity. The Atlantic Council's experts argue that the current regulatory patchwork produces **more friction and higher costs for consumers** and that international standard-setting (potentially led by the U.S. for dollar stablecoins) is needed ¹⁴. In absence of that, regulators fear a “race to the bottom” or simply a messy environment where the promise of stablecoins to improve payments is undercut by legal uncertainties and incompatible rules. From the U.S. perspective, the lack of federal law itself creates internal fragmentation: stablecoin issuers have been using state trust charters or money transmitter licenses, meaning oversight can vary state by state and is not uniform – something both industry and regulators see as suboptimal. This situation has arguably delayed broader adoption of stablecoin payments in the traditional sector, as many banks and businesses wait for clear federal guidelines. **Regulatory fragmentation** is thus cited as a risk because it can lead to **uneven enforcement and potential instability** – bad practices might persist in one jurisdiction and then spill over globally (since blockchains don't respect borders), or crises might emerge from the least regulated corner and affect everyone. It also complicates crisis management: in a run scenario, who has the authority to intervene if an issuer operates trans-nationally? To sum up, without coordinated frameworks, stablecoins might not reach their full positive potential and could amplify risks, which is why many analysts argue that a more unified regulatory approach (either via international coordination or through leading jurisdictions setting strong precedent) is necessary before stablecoins could safely scale. The situation is dynamic: as of 2025, the EU's MiCA might pressure other countries to follow suit or risk their companies being cut off from the EU market. In the U.S., proposals like the aforementioned GENIUS Act aim to create at least domestic consistency. But until such measures are globally in place, the **fragmentation argument** stands as a caution that the current trajectory of stablecoins could lead to a fractured financial system, rather than the seamless global network that proponents envision.

- **Other Risks (Technology and Legal):** Rounding out the cons, a few additional points are often mentioned, even if not explicitly in the requested list, and they intersect with those above: **smart contract vulnerabilities** in stablecoin systems (if an issuer uses programmable features or if stablecoins are locked in DeFi protocols, bugs could affect their value or accessibility), and **legal ambiguity** (questions about the legal claim one has on the reserves, especially if an issuer goes bankrupt – e.g., are stablecoin holders secured creditors, or would they fall in line behind others?). These concerns reinforce the call for clear legal frameworks. For instance, the Gemini analysis flags that algorithmic or crypto-backed stablecoins carry **smart contract and code risks** that could cause failures if not thoroughly audited ⁶⁸. Furthermore, stablecoin holders currently do not have the same protections as bank depositors; if something goes wrong, their recourse might be uncertain – a fact regulators underscore when warning the public. While these issues are being addressed gradually (with some jurisdictions considering requirements for wind-down plans or explicit redemption rights in law), they contribute to the overall caution around stablecoins.

In conclusion, stablecoins encapsulate both the **cutting-edge innovations and the familiar risks** of private money. They demonstrate how technology can improve payments, but also how important regulatory guardrails and sound design are to ensure stability and trust. The U.S. and EU are grappling with

striking the right balance – encouraging beneficial innovation in payments and fintech, while protecting consumers and the financial system. The EU's approach with MiCA provides one template: integrate stablecoins into the regulatory perimeter and treat them somewhat like banking or e-money instruments. The U.S., through ongoing legislative discussions, is exploring its own model, possibly requiring issuers to be insured depository institutions or to hold very conservative reserves under supervision. These policy choices will significantly influence whether stablecoins can transition from a predominantly crypto-market phenomenon to a widely used part of the global payments landscape. And that, in turn, has implications for the case for CBDCs: some argue a well-regulated stablecoin ecosystem reduces the need for a retail CBDC, while others believe only a public CBDC can ultimately provide the safety and uniformity needed for the money of the digital age. The debates on CBDCs and stablecoins are thus deeply intertwined, with all sides agreeing on one thing – that **the future of money and payments is at a crossroads**, and decisions made in the next few years by the US, EU, and other major economies will set the trajectory for decades to come ⁵⁷.

Footnotes: This report has referenced a range of current sources to substantiate the points above. Key references include analyses by the Atlantic Council's GeoEconomics Center on CBDC trends and stablecoin frictions ¹⁷ ³⁶ ⁶⁴ ⁶⁷, official communications such as the U.S. Federal Reserve's discussion paper on CBDCs ¹⁸ ³⁵, the European Commission and data protection authorities on the digital euro's privacy considerations ⁶ ³², industry research by groups like McKinsey on stablecoin adoption and benefits ⁴⁸, and perspectives from think tanks (e.g. Cato Institute's critique of CBDC surveillance ³¹). The EU's MiCA regulation text and related commentary ¹³ have been used to illustrate the emerging regulatory stance. Additionally, incidents such as the USDC depeg and TerraUSD collapse are noted with reporting from *Financial Times* and *Reuters* as cited ⁵⁹. These footnoted sources provide deeper context and evidence for the assertions made, and the reader is encouraged to consult them for further detail on specific subtopics.

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