



Understanding Stablecoins:
Economic Implications, the MiCA Framework, and
Policy Challenges in Europe

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1 Introduction

The world is changing rapidly, and innovation is following paths never experienced before in human history. This transformation is also evident in the sphere of money and payment systems, most notably with the invention of cryptocurrencies. Cryptocurrencies were created with the declared aim of “democratizing” money, alongside the broader and arguably more important innovation of blockchain technology.

However, due to their highly unstable nature, cryptocurrencies have failed to fully achieve the objectives for which they were originally designed. While cryptocurrencies have struggled to function as reliable means of exchange, blockchain technology has emerged as the true and lasting innovation. Within this broader effort to “democratize” money and leverage the newly developed blockchain infrastructure, stablecoins aim to accomplish what Bitcoin, the reference cryptocurrency, has never fully managed to do: solve the fundamental problem of price instability.

Introduced in 2016, stablecoins did not immediately attract widespread public attention. Their turning point can be traced to the so-called “crypto winter,” during which Bitcoin and other cryptocurrencies revealed their structural weaknesses, particularly their extreme volatility. Stablecoins can be classified into different types depending on their stabilization mechanism. Among these, fiat-collateralized stablecoins are of primary interest and practical relevance, as they are directly pegged to traditional currencies and therefore offer greater price stability.

This report aims to provide a clear and policy-relevant assessment of stablecoins by defining their core characteristics, evaluating their economic implications, and analysing their prospective role within financial markets. It further examines the EU’s crypto-asset regulatory framework, MiCA, with a focus on its key strengths and existing shortcomings. The objective is to identify regulatory grey areas where targeted adjustments may be warranted, in order to mitigate potential risks to European financial stability while preserving innovation.

The report is structured into three parts. The first part provides an in-depth explanation of what stablecoins are, outlining the main categories of stablecoins currently in existence. The second part analyses their role in the economy and the risks they may pose to financial markets. The third part examines the MiCA regulation in greater detail, assessing how the European Union is responding to this innovation and identifying areas where the regulatory framework could be further improved.

2 The blockchain revolution and the birth of stablecoins

Money conveys information on where value is and how much there is of it and information travels on the best available technology (Angeloni and Gros, 2025).

The term digital money has recently entered our vocabulary to describe the “newest” form of money, namely cryptocurrencies. Yet, most of the money in circulation today has long existed in digital form. The real revolution brought about by cryptocurrencies is therefore not the ongoing digitalization of money itself, but rather the way monetary information is transferred. The key innovation lies in blockchain technology, or distributed ledgers, and in the fact that the record of transactions, and thus the underlying information, is no longer held by a single institution, but is publicly shared. The first cryptocurrency, Bitcoin, appeared in 2009 with the aim of “democratizing money”, eliminating reliance on financial intermediaries, and creating a means of payment suitable even for small transactions (Angeloni and Gros, 2025).

However, its high price volatility and, until a few years ago, its elevated transaction costs made everyday use impractical. Shop owners would have been forced to adjust prices almost continuously, while buyers often ended up paying more in transaction fees than for the goods themselves. It was precisely to address these shortcomings of Bitcoin that stablecoins emerged in 2014 but interest in them emerged only during the so-called ‘crypto winter’ of 2022-23 (IMF; 2025). Since then its issuance increased rapidly, as it is clear from figure 1, reaching about \$300 billion in September 2025.

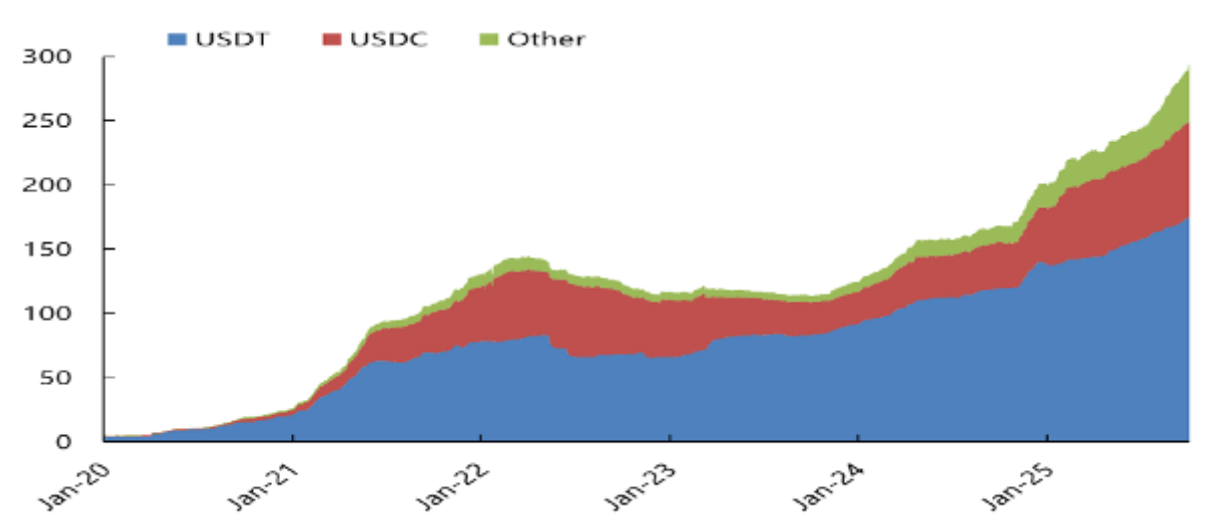


Figure 1: Major stablecoins Market cap (in Bn\$);

Source: CoinGecko and IMF staff calculations

2.1 Stablecoins: Types and characteristics

Stablecoins are a category of digital units of value that aim at maintaining a stable price relative to a specific asset or a basket of assets. They are defined by the following primary characteristics: digital native issuance, explicit value reference and mechanisms for price stability (IMF, 2022). Indeed, stablecoins are crypto tokens that exist natively on-chain implying that they are recorded on distributed ledger technology (DLT) such as private or public blockchains. This allows them to be exchanged near-instantaneously 24/7 without a central intermediary. Unlike unbacked crypto assets, stablecoins are linked to an external reference value, to a very great degree fiat currencies particularly the US dollar, but sometimes commodities like gold or a basket of currencies.

Stablecoins can be distinguished on the stabilization tools they employ to maintain their peg. The main models are: off-chain collateralized (tokenized funds), on-chain collateralized and algorithmic (source). The first ones are backed by traditional assets held by an accountable issuer, such as bank deposits, treasury bills, and commercial paper and they typically offer one-for-one redemption for fiat currency. On-chain collateralized stablecoins are backed by other crypto-assets, often held in smart contracts. Since the collateral is volatile, these are usually over-collateralized (e.g., depositing \$150 of Ether to mint \$100 of stablecoin). Finally, algorithmic stablecoins use automated smart contracts to manage the supply and demand of the token without physical backing assets. For example, the system may mint or burn tokens to defend a price peg.

2.2 Reserves composition, liquidity and contagion risk

Among those types of stablecoins, the tokenized stablecoins pegged to a fiat-currency, usually the US dollar, are the most popular and largely issued among all. This instrument has the ability to challenge banks in their core business, the supply of money (Angeloni and Gros, 2025). In order to do so the vast majority of stablecoins provide a stable redemption value to subscribers, operating on a first come first serve basis. In order to guarantee this conversion this type of stablecoins are “collateralized”, in essence backed by a portfolio of reserves assets supposed to match the total value of the stablecoins issued against them.

In order to ensure effective redeemability at all times, these reserves are expected to consist predominantly of highly liquid assets, such as bank deposits, short-term government securities, and other very short-maturity instruments (IMF, 2022). To date, only EU-issued stablecoins are subject to explicit regulation, under MiCA, which imposes

quantitative limits, while it remains largely unregulated in the rest of the world. It is important to notice that MiCA regulates EU-based issuers and intermediaries, but stablecoins issued outside the EU and traded via non-EU intermediaries can freely flow in and out of the Union, exposing European users to risks stemming from the absence of MiCA-compliant reserve safeguards.

The issuance of unregulated stablecoins exposes consumers and investors to significant liquidity risk, largely driven by the composition and quality of their reserves. In the absence of regulatory oversight, these risks arise from reserves that may be insufficient, opaque, illiquid, or invested in high-risk assets, often with the aim of increasing issuer profitability. In several cases, stablecoins are backed by risky and illiquid instruments, including commercial paper, which may not always be redeemable at par, particularly under stress conditions. The incentive for investing in less liquid, higher-risk assets generally comes from a search for yield (IMF, 2022).

The composition and allocation of reserves are often opaque, elevating risks of conflict of interest between issuers and custodians and of misappropriation of reserve assets. While some stablecoins provide attestations, major issuers (including Tether, Circle, and Binance) are yet to release audit reports regularly by independent auditors (IMF, 2022). These regulatory and governance weaknesses also affect adoption on the demand side, contributing to the limited use of stablecoins in everyday transactions by households.

In fact, until only a few years ago, transactions recorded on distributed ledgers were far from instantaneous and cheap; for many networks this is still the case. Moreover, a large share of the population remains reluctant to adopt stablecoins: they are not intuitive instruments, they lack the backing of solid and trusted institutions, and they still operate in an incomplete regulatory framework. As a result, retailers are generally unwilling to accept them, which makes stablecoins unsuitable for routine shopping.

Consequently, stablecoins have so far proved much more attractive to large investors than to retail users. Indeed, in the case of Tether, the largest stablecoin, around 80% of the total supply is held in wallets with balances exceeding \$1 million (I. Angeloni and D. Gros, 2025). This further exposes stablecoins to liquidity run risk. Although the analogy with pegged currencies in emerging markets is not perfect, it is useful to highlight a similar fragility. The mechanism through which instability materializes is closely related. Stablecoins are exposed to liquidity runs, the digital equivalent of a cash-withdrawal run, where holders simultaneously seek redemption, testing the issuer's capacity to honour its 1:1 commitment. Similarly, pegged exchange rate regimes are

vulnerable to speculative attacks, where investors, doubting the sustainability of the peg, sell the currency en masse.

In both cases, instability stems from the same mechanism: confidence can evaporate suddenly, not necessarily because fundamentals weaken, but because expectations shift and investor confidence can be inherently fragile and sometimes “random”, driven by events that generate episodes of euphoria or crises without any strong fundamental justification. These vulnerabilities may become systemic as the scale and use of stablecoins expand. Greater adoption could trigger fire sales of reserve assets during periods of market stress, thereby transmitting shocks to the broader financial system. As users expect to redeem stablecoins rapidly and at par, issuers and service providers may be forced to liquidate bonds and withdraw bank deposits to meet redemption pressures. The two largest stablecoins rank among the largest holders of U.S. Treasury bills and have asset reserves that are comparable to the top 20 largest money market funds (Reuters, 2024). In a recent statement, the ECB also warned that disorderly fire sales of stablecoin reserve assets could impair the functioning of U.S. Treasury markets and generate cross-border spillovers to the euro area. These risks may be further amplified when a European Union entity and a third-country entity jointly issue a fungible stablecoin, as stricter EU regulatory requirements may incentivize investors to preferentially redeem the EU-issued token.

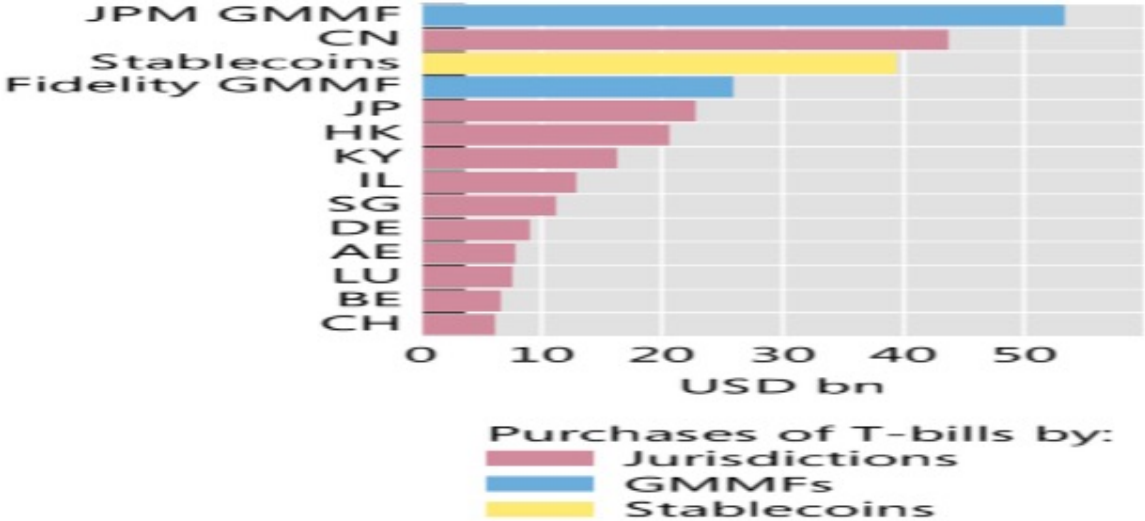


Figure 2: Top buyers of T-bills in 2024
Source: BIS 2025

2.3 The privilege of private Seignorage

As previously noted, stablecoins resemble banks in their provision of a monetary instrument, but with a crucial difference: so far, stablecoins generally do not pay interest to holders while earning interest on their reserve assets, placing issuers in a privileged position to capture seigniorage. Stablecoin issuers hold interest-bearing assets against liabilities that function like money but are remunerated at zero or near-zero rates.

A global, offshore stablecoin pegged to a major currency can therefore attract users worldwide, earning interest income in the financial centre where its reserves are held, under limited local oversight and without any automatic pass-through to domestic taxpayers. As payments increasingly migrate to such instruments, seigniorage revenue progressively shifts from public balance sheets to private, often foreign, entities (Minerva, 2026).

This phenomenon could be of particular relevance in emerging countries which could leverage stablecoins as a means to dollarize, reducing demand for local currency implying a fall in seigniorage income thus lowering dividend payments to the government.

3 The role in the economy of this private currency

Stablecoins usage in everyday household life is still very much limited, in fact, so far, their main role has been to support cryptocurrency transactions. They provide a way for investors to remain within the crypto ecosystem while preserving a stable value, avoiding conversion costs from Bitcoin to dollars, and in some cases reducing traceability by governmental authorities, since transactions occur on a pre-existing distributed ledger.

Since 2020, however, stablecoins have grown increasingly important in cross-border payments (see Figure 2), although in an amount still not that relevant. A study by the BIS shows that cross-border stablecoin transaction volumes tend to increase following episodes of high inflation or foreign-exchange volatility in both sending and receiving countries. Not surprisingly this phenomenon is particularly relevant in developing economies whose access to dollars is limited or many times constrained (BIS, 2025).

In those countries, inefficiencies in payment systems and limited access to financial services in the domestic currency can also be a driver of currency substitution. If a significant share of economic activity were to shift to foreign currency-denominated stablecoins, the central bank's control over domestic liquidity and interest rates could weaken the transmission of monetary policy (IMF, 2023).

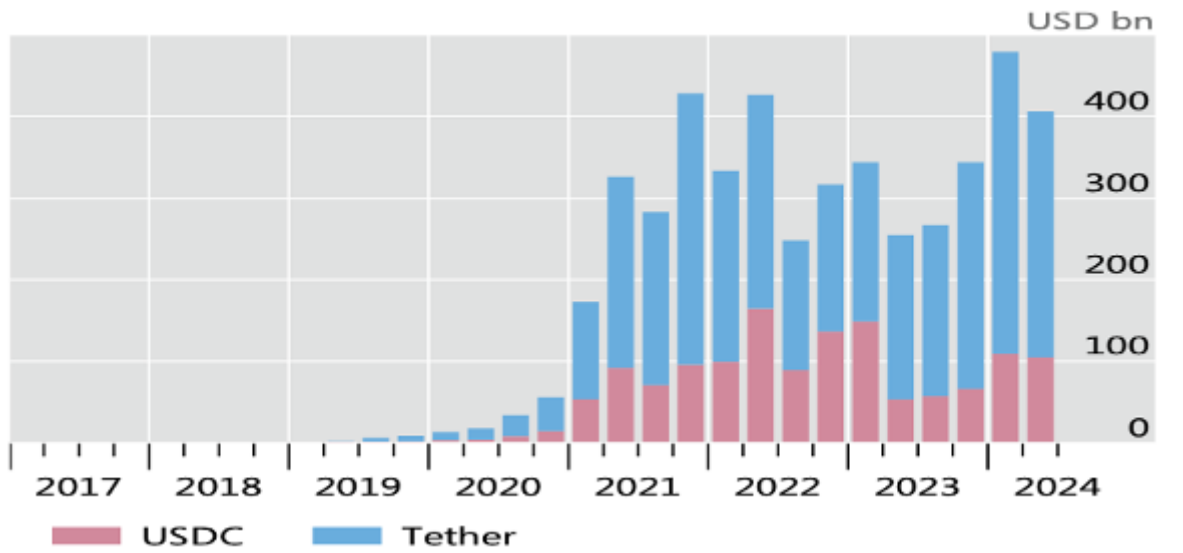


Figure 3: Cross-border stablecoin flows

Source: Auer, Lewrick and Paulick (2025); Chainalysis

3.1 Cross-border payments: Can Stablecoin reshape how money flows across countries?

Cross-border money transfers support a range of activities, including foreign trade, remittances sent by expatriates to their families, business transactions, and international investments. However, traditional methods of international money transfers, such as bank transfers and money transfer operators (MTOs) like Western Union, are often slow, expensive, and complicated, resulting in a significant burden on users.

In this sphere, this new private currency could reshape cross border flows since, potentially, could help to reduce the frictions in cross-border payments, in terms of costs, speed and access (BIS, 2023). At the same time, they could be used to circumvent capital flow management measures (CFMs). The implementation of CFMs relies on established financial intermediaries. By providing an avenue for capital flows outside of the common rails, stablecoins could be used to selectively undermine the implementation of CFMs (Cardozo and others 2024; IMF 2023). Indeed, some evidence points to crypto, including stablecoins, being used as a marketplace for capital flight (Graf von Luckner, Koepke, and Sgherri 2024).

3.1.1 The KYC compliance and the usage in fraud

As digital bearer instruments on borderless public blockchains, stablecoins have been the goto choice for illicit use to bypass integrity safeguards (BIS, 2025). Those instruments are not like the others used in the traditional financial system and thus lack the Know-

your-customer (KYC) standards. Their functioning is peculiar since they are not linked to any location or any particular bank. Stablecoin transactions are recorded on public blockchains and are therefore fully traceable at the transaction level. However, they are only pseudonymous, as blockchain addresses are not inherently linked to real-world identities. Identity attribution typically occurs only at regulated on- and off-ramps, such as centralized exchanges and payment service providers subject to KYC and AML requirements. Between these points, users can transfer stablecoins through self-hosted wallets without revealing their identity, even though the transaction history remains publicly observable. As a result, enforcement efforts rely critically on whether illicit actors eventually interact with regulated entities, which function as key chokepoints in the stablecoin ecosystem.

Moreover, the onboarding process could also be deceived, since It is also possible to access the crypto ecosystem directly through unhosted wallets, that is, crypto-asset wallets in which users retain full control over their private keys and assets. These wallets, which are widely available through smartphone app stores, allow users to interact directly with public blockchains without relying on intermediaries. As a result, transactions conducted via unhosted wallets generally occur outside the scope of customer due diligence and KYC requirements (BIS, 2025).

Not surprisingly, Tether, one of the world’s largest cryptocurrency platforms, has emerged as one of the leading payment methods for money launderers and fraudsters operating in southeast Asia (Financial Times, 2024).

4 The EU’s MiCA Regulation: Scope, Regulatory Coverage, and Remaining Gaps

4.1 Legal definitions under MiCa

Under the EU’s Markets in Crypto-Assets Regulation (MiCA) (Regulation (EU) 2023/1114), stablecoins are classified into two key categories with different definitions:

- **Electronic Money Tokens (EMTs):** “a crypto-asset referencing the value of one official currency”, capturing fiat-pegged stablecoins and aligning them with the concept of previously established “electronic money.”

- **Asset-Referenced Tokens (ARTs):** “not an e-money token and purports to maintain stable value by referencing another value or right, or combination thereof,” capturing all stablecoin arrangements other than simple single-fiat pegs.

In simpler terms, EMTs are single-currency-pegged tokens (like a crypto Euro or crypto USD), and ARTs are “stablecoins” backed by multiple currencies or assets (or by non-fiat assets). MiCA separates these categories to ensure appropriate regulatory treatment for each class.

Issuer Requirements and Authorization

The issuers of these tokens are controlled by strict requirements, especially for EMTs, to integrate them safely into existing financial safeguards:

- **EMT Issuers:**

MiCA mandates that issuers offering an e-money token must be a licensed authorized credit institution under Directive 2013/36/EU or a licensed electronic money institution (EMI) under 2009/110/EC. This closes the door to unregulated or non-bank entities issuing currencypegged stablecoins. Notably enough, MiCA text deems EMTs to be “electronic money” as defined in the E-Money Directive, unless special MiCA rules apply, which underscores that EMTs are folded into the traditional e-money regime.

- Disclosure and conduct requirements: Although issuers must be regulated banks/EMIs, MiCA includes additional obligations for them, such as publishing a detailed crypto-asset white paper, similar to a prospectus, before offering EMTs. This white paper must describe the token, rights and risks, technology, and regulators must be notified. Management levels of the issuer are made personally liable for the level of accuracy of the white paper. This brings an extra layer of accountability on top of the usual e-money rules.

- **ART Issuers:** A new authorization system is created for the issuers of ART, and under it, an issuer must be a legal entity established in the EU and obtain approval from the national competent authority (NCA) before offering ARTs to the public. The issuer needs to submit an application with the business plan, asset management policies, a draft white paper, and a legal opinion confirming the token falls under MiCA and is not an EMT.

This framework aims to ensure the stability mechanism and governance of the token in advance, especially due to the potentially complex reference assets. Credit institutions (banks) are exempt from the pre-approval process for ARTs, as they are allowed to issue an ART ex lege (through their banking license) without a separate MiCA authorization. Nevertheless, even banks must still comply with MiCA’s disclosure rules such as producing a white paper when issuing ARTs.

- Exemptions for small-scale or private ARTs: If an ART’s total outstanding value stays under €5 million over 12 months, or if it is offered only to qualified investors and not held by the general public, the issuer may be exempt from the full authorization procedure. But even then, a white paper must be drafted and filed. These threshold-dependent exemptions prevent private-network tokens from affecting the full regulatory regime, while still ensuring transparency.

While redemption and reserve obligations apply to both categories, they mirror those for traditional e-money more closely with EMTs:

Under MiCA, EMT holders have a direct claim on the issuer and redemption rights at any time at par value in the reference currency. This follows the E-Money Directive’s core principle that e-money must be redeemable at face value on demand. Similarly, ART holders must have redemption entitlements, but the exact mechanics depend on the reference assets.

Both EMT and ART issuers must have adequate reserve assets to fully cover the tokens in circulation and must safeguard those reserves, following the specific rules on asset quality, liquidity, and a requirement that at least 30% of EMT reserve funds be placed in protected trust accounts with credit institutions.

Beyond these, MiCA also bans the granting of interest to holders of EMTs in order to discourage using stablecoins as investment products or store-of-value instrument

4.2 Gaps in the E-Money Directive and Their Exploitation:

Why we needed MiCA

The main motivation behind MiCA’s stablecoin provisions was the regulatory gap in the preexisting Electronic Money Directive (EMD) framework. The E-Money Directive (2009/110/EC) defined “electronic money” as a monetary value stored electronically, issued on receipt of funds, representing a claim on the issuer, and accepted as a means of payment by others (EBA, 2022). Traditional e-money, like prepaid cards or PayPal

balances, gives the holder a legal claim on the issuer and the right to redeem at par value in fiat. Prior to MiCA, some stablecoin arrangements fell outside this definition and thus outside of regulation. For example:

- **Stablecoins without redemption claims:** Many crypto-assets referencing an official currency did not provide holders with a claim against the issuer at all, or did not guarantee redemption at par value. Such tokens were structured to not meet the EMD definition of e-money, allowing issuers to argue they were unregulated “crypto” rather than electronic money. In practice, users treated these stablecoins like money, but legally the issuers had no obligation to redeem tokens for fiat. This loophole created issues for consumer protection where holders assumed stability but had no legal grounding or guarantee of value.
- **Limited redeemability or delayed redemption:** Even when a claim existed, some stablecoin issuers imposed limits such as minimum redemption thresholds, long delays, or fees, or only allowed certain participants to redeem and not the general public. Such practices made the token not squarely fit the “at any moment, at par” redemption requirement defined by the EMD. Again, this could put the token outside e-money rules, even though it functioned as a de facto stable currency.
- **Multi-asset and algorithmic stablecoins:** A token referencing multiple currencies or assets, for example, a coin backed by a basket of currencies, or by commodities like gold, did not match the EMD’s definition of e-money. Thus, “stablecoins” that were not in the scope of a one-fiat peg were unregulated at the EU level. This turned into a visible gap when proposals like Facebook’s Libra (later Diam), a basket-backed global stablecoin, emerged, raising concern that a large-scale stablecoin could evade traditional e-money regulation due to its design.

MiCA was designed to close such gaps. It introduced asset-referenced tokens to cover any stablecoin referencing multiple assets or non-fiat values, and it broadened the regulatory net around single-currency tokens.

Recital 19 of MiCA explains that to avoid circumvention of e-money rules, the definition of EMT is made “as wide as possible” to capture all crypto-assets referencing a single official currency. So any token stabilized by 1 fiat currency will be treated as an EMT by MiCA and impose e-money-like obligations, whether or not the issuer voluntarily offers redemption. MiCA explicitly states these tokens are electronic money in legal terms and must offer redemption rights and operational safeguards like traditional e-money.

Additionally, MiCA's creation of the ART category brought previously unregulated stable-value tokens into a regulatory framework for the first time. Issuers of ARTs now must meet several capital, governance, and transparency requirements before launch, eliminating scenarios where such stablecoins could be operated in a legal gray zone.

4.2.1 Tighter Regulation of ARTs Due to Systemic Concerns

Given their perceived systemic risk potential, the MiCA is particularly cautious about ARTs. Policymakers were aware of scenarios where a privately issued stablecoin could achieve wide adoption across the EU or globally, affecting monetary policy or financial stability:

- **Greater Scrutiny for “Significant” Stablecoins:** If an ART attracts a large user base or transaction volume above certain thresholds, it can be officially designated as a “significant” asset-referenced token by regulators. The criteria, set out in MiCA Article 43, include factors like market capitalization, number of holders, value of transactions, and interlinkages. MiCA's recitals warn that high-volume stablecoins pose “specific risks to monetary transmission channels and monetary sovereignty of the EU”. For example, a stablecoin not issued by a central bank referenced to Euro currency might interfere with the ECB's control of money supply or harm the national currency of a Member State, if widely used.
- **European Banking Authority (EBA) Oversight:** To address systemic concerns, the EBA was appointed as the direct supervisor of issuers of significant ARTs from the moment they are classified as such. Under normal circumstances, an ART issuer is supervised by the NCA that granted its license. But if the token is classified as significant, the EBA takes over certain supervisory tasks. This extraordinary measure reflects the Europe-wide impact a large stablecoin could have. MiCA specifies that EBA will have powers to conduct on-site inspections, impose fines, and coordinate oversight for these issuers. So while ordinary EMTs/ARTs are supervised by NCAs, when they become significant, the regulatory efforts are promoted to the EU level.
- **Higher Requirements:** Significant ART issuers must meet stricter risk-management standards than smaller issuers. MiCA mandates additional capital for significant tokens, strict liquidity management, and more rigorous reserve asset requirements due to their greater risk profile. For example, issuers of significant ARTs are required to do liquidity stress tests regularly and monitor their ability to meet mass redemption requests. They must also include risk management as part of their

governance (for instance, with sound remuneration policies that don't incentivize unnecessary risktaking). MiCA's purpose is to ensure that a systemic stablecoin has bank-like resilience (to possible bank-run-like events, liquidity crunches, etc.), since a loss of confidence in a major stablecoin could have serious consequences.

- **Extra requirements also apply to significant EMTs:** Recital 70 of MiCA notes that issuers of significant e-money tokens, especially if they are non-bank EMIs, should be subject to higher capital requirements and liquidity management obligations, similar to those for ARTs, because their failure could also threaten financial stability, although probably more manageable and foreseeable. However, if a significant EMT is issued by a credit institution, the bank's existing supervision covers much of the risk, and MiCA does not duplicate those rules again.
- **Monetary Sovereignty Protections:** MiCA mentions a concern for situations where an EMT follows an EU national currency that is not the Euro. If such a stablecoin becomes significant and mostly used in its home country, MiCA allows the NCA to remain the primary supervisor. Similarly, the EU has debated caps or restrictions on how significant stablecoins can be used: Recital 68 aims to "reduce the risk that e-money tokens are used as a store of value," reflecting concern that if people chose private stablecoins instead of bank deposits or money, it could affect the banking system and monetary policy.

In summary, ARTs are subject to a more intense regulatory focus because of their broader reference assets and the precedent of proposals like "global stablecoins" that could reach massive scale. The approach for EMTs is slightly different, where they are assimilated into the e-money world of banks and EMIs. Both, however, are now regulated to prevent the kinds of systemic problems that unregulated stablecoins might pose.

4.2.2 Alignment of EMTs with Traditional E-Money and Payment Services

An important theme of MiCA is that "stablecoins that mimic money should be regulated like money." This is most clearly seen in how e-money tokens (EMTs) are aligned with the existing e-money and payment services framework:

- **Deemed Electronic Money:** MiCA explicitly states that an e-money token is electronic money in the sense of the E-Money Directive, meaning that all the rules of the EMD apply to EMTs (except where MiCA adds even more specific rules). EMT issuers must therefore comply with dual regimes: the traditional e-

money requirements and the new MiCA crypto-asset requirements. The parity and redeemability that characterize services like prepaid payment accounts are carried over to tokenized money. This continuity closes any regulatory arbitrage where a stablecoin issuer might have argued it wasn't "issuing e-money". In practice, EMTs connect the crypto-asset realm to the traditional regulated payments realm, ensuring consistency in oversight.

- **Integration with Payment Services (PSD2):** Because EMTs are treated as funds/e-money, activities involving EMTs can fall under the Payment Services Directive (PSD2). For instance, the service of safeguarding or transferring EMTs on behalf of a client is functionally akin to electronic payment services. EU regulators have clarified that providing custody of an EMT wallet or executing an EMT transfer is to be considered a payment service (like operating a payment account or executing a payment transaction), which means the provider may need a payment institution or EMI license (or an exemption/partnership) in addition to any crypto-asset service provider authorization. The European Banking Authority in 2025 issued an Opinion to prevent double licensing, essentially saying crypto firms dealing in EMTs must either become licensed PSPs (Payment Service Providers) or work with one by a certain deadline (Morgan Lewis, 2025). This highlights that EMTs are woven into the fabric of the EU payments regime. Users should get the same protections as if they were using any other electronic payment method.
- **No Novelty for Consumers:** From a consumer perspective, an EMT should function very much like existing electronic money. The holder has a guaranteed claim on a regulated issuer, the value is stable in terms of fiat, and they can use it for payments where accepted. MiCA's additional rules regarding risk disclosures in the white paper and prohibition of interest further strengthen that EMTs are a payment medium, not an investment. The regulation intentionally bridges MiCA and the older financial directives so that there is no gap when someone uses a stablecoin to make a purchase: the activity itself is handled under payment law and the value is safeguarded under e-money law. Ultimately, the EU regards an EMT as simply electronic money issued on a blockchain, and supervises it accordingly.

By aligning EMTs with traditional e-money, the EU ensures that a stablecoin issuer can't get a competitive advantage over a licensed e-money issuer by operating outside the rules. The overarching principle is "same activity, same risk, same rules." The

technology behind, so blockchain may be new, but if the economic substance is like money, the regulatory treatment will be that of money.

5 Conclusion

While often portrayed as a purely technological development, this report shows that stablecoins are best understood as private monetary instruments whose economic context is similar to that of bank money, money market fund shares, or electronic money, rather than a completely new form of currency. The key innovation of stablecoins lies therefore not in the digitalization of money, but in the use of distributed ledger technology that enables borderless and almost instantaneous transfers outside traditional financial systems.

From an economic perspective, stablecoins raise some familiar issues. Their promise of price stability depends on reserve adequacy, liquidity, and governance, exposing them to run risks similar to banking systems and pegged exchange-rate regimes. Concentration in large investors, opaque reserve management, and incentives to search for yield further strengthen these vulnerabilities. Disorderly redemptions could trigger fire sales of safe assets and pass on shocks to the broader financial system. Moreover, by issuing non-interest-bearing liabilities backed by interest-yielding assets, stablecoin issuers capture private seigniorage, shifting income away from the public sector and weakening monetary sovereignty in jurisdictions where the economies are already prone to currency substitution. Despite the above risks, stablecoins still respond to frictions in the existing financial system, especially those in cross-border payments. Stablecoins may be partial substitutes for traditional intermediated transfers, particularly in developing economies facing inflation, capital controls, or restricted access to some currencies. At the same time, however, their ability to operate outside conventional financial systems raises concerns regarding the circumvention of capital flow management measures and the effectiveness of AML and KYC frameworks, especially when transactions happen through unhosted wallets.

Against this backdrop, the EU's MiCA regulation classifies fiat-referenced stablecoins as electronic money tokens and aligns them with the existing e-money and payment services framework, applying the principle of "same activity, same risk, same rules." At the same time, the creation of the asset-referenced token category solved regulatory gaps that allowed multiasset or non-fiat-backed stablecoins to operate in legal grey zones. The oversight of "significant" stablecoins by the EBA demonstrates recognition of the

systemic risks that large-scale private monetary instruments could pose to financial stability and monetary policy transmission. However, important regulatory challenges still remain.

MiCA's scope is limited to EU-based issuers and intermediaries, while globally circulating stablecoins issued outside the Union can still be accessed by European users. Furthermore, private-sector tokenized payment platforms developed by large financial institutions may offer many of the efficiency gains associated with stablecoins while remaining within the regulated financial system, raising questions about whether unregulated or lightly regulated stablecoins will retain their competitive advantage in the long term.

In sum, stablecoins are an evolutionary step in the provision of private money, raised by new technology but constrained by old economic realities. The EU's regulatory response acknowledges both the potential and the inherent risks of these instruments. Whether stablecoins end up becoming a niche product, a widely used payment instrument, or an influence for further reforms in cross-border payment systems will depend on technological developments, effectiveness of regulations, credibility of issuers, and the ability of public institutions to adapt monetary and payment infrastructures to a digital age.

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