StableCoin
A brief introduction

The world is changing very quickly, and the old rules no longer apply. International trade is being disrupted, and political balances are being challenged as alliances shift rapidly. Technology is transforming daily life and the course of the world. Currencies are at the heart of these disruptions. They will evolve rapidly, their scope will change. This has already begun with the Stablecoin backed by the US authorities. But the story won't end with this new asset.

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A stablecoin is a cryptocurrency where the value of each token is pegged to a corresponding reserve asset. The face value of each token is therefore that of the unit of account of the reserve asset. The exchange rate will be 1 to 1 with the dollar or 1 to 1 with the euro, depending on the issuer. It is a private asset and is therefore not guaranteed by the central bank.

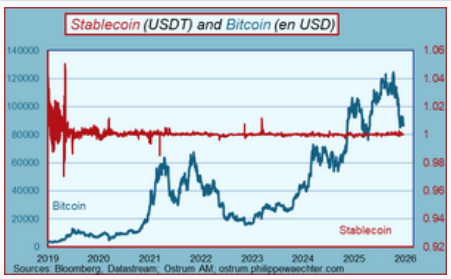
An institution, company or bank issues stablecoins (SC) and buys assets that have the qualities to serve as counterparties.
It is a 99% dollar market and there are two major operators in the US market: Tether with USDT, which had a market capitalization of $186 billion as of December 15, and Circle with USDC, which had a market capitalization of $78 billion.

It's the underlying asset that differentiates cryptocurrencies. A stablecoin is backed by assets like US government debt, while Bitcoin is backed by an algorithm that manages its scarcity. Both assets are cryptocurrencies but have different underlying assets. One is stable, while the other is volatile.

The two types of crypto are not completely separate. Several points

- ·These two types of crypto use a similar technology, the blockchain (see inset).
- The technology used guarantees complete information on transactions, instant execution speed and a very low cost.
- One reason for the success of stablecoins is that they serve as the transaction currency for cryptocurrencies like Bitcoin. This reduces execution risk when buying and selling Bitcoin, for example. It was more efficient to trade a stablecoin than a dollar due to the associated costs and delays. In a volatile world, stablecoins thus gained a significant competitive advantage over existing institutions.

Two types of cryptocurrencies with different characteristics but an essential complementarity within the blockchain for it to be effective



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The development of stablecoins has also been driven by economic shocks in countries affected by excessively high inflation. This was the case in Turkey, for example. The use of stablecoins allowed residents of these countries to reduce the risk of currency depreciation and, consequently, a loss of purchasing power.

Finally, cross-border transfers have increased significantly with the use of the Common Market. By 2025, these transfers represented 1% of all global flows. This is still modest, but given US intentions, it should rise rapidly.

What are the advantages of using stablecoins?

The operating method guarantees instant execution in all regions of the world, the transaction is recorded permanently, and the cost is significantly reduced. The SC (Supplementary Credit) system outperforms the current banking system.

The tokenization of financial assets will make the use of blockchains essential. Tokenization is the process of dividing each asset into digital tokens recorded on the blockchain. It will initially apply to financial assets, but it can also extend to real estate assets. The use of blockchains will create a form of continuity throughout the entire financial chain. This will prevent disruptions during the various stages of the transaction, thus limiting operational risks.

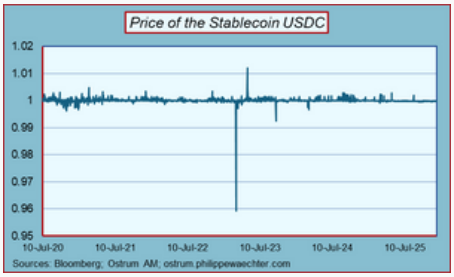
For Europe, this is a major issue because the link between the digital euro and tokenization is not automatic. It doesn't exist with the retail digital euro and could exist with the wholesale digital euro, which is intended for institutions. The timeline points to implementation in 2029. This is close, but seems distant given the rapid development of smart currencies.

The SC, regulation and the central bank

For now, the size of the market is not problematic for either the management of money issuance for the central bank or for the direction of monetary policy.

This could become the case, particularly in the USA, given expectations about the size of the market, which could reach $4 trillion by 2030 (highest estimate).

In the US, the Genius Act emphasizes the quality of counterparties in SC issuances to prevent panic. There was a warning sign during the collapse of Silicon Valley Bank in March 2023. Circle was unable to maintain the USDC's 1-to-1 parity, triggering a panic that compounded the inherent panic of the Californian bank.



Circle had $3.3 billion in cash reserves held at Silicon Valley Bank. These reserves were part of the necessary counterparty to maintain 1-1 parity with the dollar.
The bank panic surrounding SVB prevented Circle from accessing its reserves, triggering a panic in the USDC price. The stablecoin needs confidence to function properly.

The reference assets to guarantee 1-to-1 parity must be safe and liquid: these include the US dollar, insured bank deposits, short-term Treasury bonds, money market funds on official assets or reserves at the Fed. Issuers of SC will be supervised by their usual regulators if they are banks and for non-banks, the Fed or a regional regulator if the amount is less than $10 billion.
The discussion in the US focuses on the fragmentation of regulations based on status and size. This can cause problems if counterparties are poorly managed.

In Europe, regulation is defined by the MiCA (Markets in Crypto-Assets Regulation) legal framework. This framework is broader than the US Genius Act. Europe has adopted a comprehensive set of rules, covering everything from issuance to services, for cryptocurrencies, with specific requirements for smart cards. The Genius Act, on the other hand, focuses primarily on smart cards.

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Europe emphasizes transparency regarding counterparties, information on risks, and associated costs. It also aims to manage conflicts of interest and ensure the best possible execution of transactions. Europe has higher standards than the United States in terms of information and transparency. This is part of the ongoing discussions between the two regions.
For European banks, SCs are treated as reserves which do not confer any special status.

The risks associated with SC

Risks are generally underestimated at the start of the process. When structured products were first introduced, the risks were poorly identified and understood. They emerged gradually, leading to a kind of distortion of the system.

- **Risk to reserves**
  - Quality of assets
  - Asset/liability duration matching
  - Transparency of reserves
- **Liquidity risk**
  - The absence of a central bank raises the question of the lender of last resort.
  - Sensitivity to market shocks
  - In times of stress, liquidity management can have a procyclical effect (Circle with SVB)
- **Systemic risk**
  - Money market destabilization affects the liquidity of this market and therefore the counterparties of the SCs
  - Contagion between crypto and financial market shock.
  - Spread of SCs worldwide with contagion effects if a problem arises.
- **Sovereignty risk**
  - Dollarization of economies due to the weight of dollar-denominated SCs
  - Erosion of the role of local currencies
  - Dependence on non-European private actors (particularly for Europe)
- **Legal risk**
  - If there is a risk of prohibition
  - Question about liability in case of fraud or default
- **Technological risk**
  - Vulnerability in computer systems with cyberattack
  - Flaw in the construction of smart contracts
  - Addiction to blockchain
- **Concentration and governance risk**
  - Major and discretionary role of the issuer
  - Conflicts of interest
  - Lack of democratic control

The SC and the dollar

One objective of the US administration is to strengthen the global status of the dollar.
Since 1944 and the signing of the Bretton Woods Agreements, the US dollar has been an international public good. The fragmentation of the world could weaken this hold, as regional currencies could emerge, granting each region greater monetary autonomy. This is a desire that is perceived on the part of the ECB and certainly on the part of China. The United States wishes to counter this risk of dedollarization by intervening through other means.

With dollar-denominated central banks, the United States aims to facilitate the implicit use of the dollar, either by economic actors in countries with high inflation or for money transfers. One consequence is the potential dollarization of fragile states. This may be a short-term resource for these countries, but since their economic cycles differ from those of the United States, it poses a significant medium-term risk. The dollarization period of the late 1990s was a failure, culminating in Argentina's collapse in 2001.

SC and public debt

Scott Bessent, the US Treasury Secretary, clearly hypothesizes that the development of SCs will boost demand for American debt. If SCs are an extension of the dollar's international dominance, then the increased demand for debt will allow the US to have its debt paid by non-residents.
Public debt is set to increase dramatically in the United States. According to the latest estimates from the Congressional Budget Office, the public debt (as a percentage of GDP) will rise from 100% in 2025 to 156% in 2055.

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The Trump administration's objective is to make the rest of the world pay for American growth.
By developing the SC worldwide, the debt will be partly borne by non-residents, thereby easing the adjustment burden for US residents.

One question concerns the monetary financing of the public deficit. If an investor, for example, buys $1 billion of government debt via Tether, and the Treasury receives and spends it, Tether, through the SC (Smart Community), will issue $1 billion worth of tokens, each worth $1. This will lead to a proliferation of monetary instruments. What will be the destabilizing impact of this additional liquidity?

Europe's response

The ECB wants to focus on the digital euro. It wants to convert what is currently cash—banknotes or coins—into digital form. This digital euro would be primarily intended for retail payments.

The ECB wants to reaffirm its monetary sovereignty in the face of private smart cards. In doing so, it aims to maintain the pivotal role of public money. By promoting the digital euro, the ECB seeks to develop a framework within which smart cards cannot operate. For now, the threat is very low, but why not envision an even more sophisticated development of smart cards targeting retail payments?

The digital Euro is not a construct using blockchain with the advantages of cryptocurrencies in terms of transaction speed or low cost.
To achieve this, it will be necessary to complement the digital Euro with a wholesale digital Euro intended for institutions, which could be part of the tokenization chain for financial and non-financial assets.
The timetable is for a 2029 deadline for the retail digital euro. It is less precise for the wholesale digital euro.

This seems like a long time considering the resources the Americans are willing to invest in developing SC and tokenizing assets. Europe cannot afford to fall behind without risking the loss of control over its financial assets.

Science and Geopolitics

There are two dimensions to the development of SC here.
The first is a response and an instrument constructed by the Americans in response to a challenge to the dollar. It also represents a way for Americans, in a world where rules have rapidly evolved, to impose their own rules.

We can clearly see the importance that the dollar has had since the end of the Second World War in the construction of the world, of economic power and in the distribution of trade.
We can also see emerging divergences that could weaken the US monetary position, without prejudging its ability to maintain existing positions. Promoting the Supreme Credit Facility (SC) is about finding a way to make the dollar even more powerful in the most remote corners of the world.
The Chinese and European response to a simple digital currency raises questions.

The other dimension is a very old monetary question. It opposes a decentralized economy with private and competing currencies to a centralized economy centered around a state and a central bank and with a reference currency.

Western countries have responded with centralisation so far, even if it means favouring the independence of the central bank so that it gains flexibility in its interventions.

The rationale behind this was the American situation, particularly in the 19th century. At that time, the Federal Reserve did not exist, and private currencies competed with one another. This resulted in numerous local financial crises.
The severe crisis of 1907 prompted the implementation of regulations which led to the creation of the Federal Reserve in 1913.

In other words, the Fed was built to offset the volatility caused by competition from private currencies. The United States may be reversing course. In this regard, it will be interesting to see the mission statement Donald Trump will deliver to the new Fed chairman starting in May 2026.

Monetary issues will continue to concern us, as they will likely remain an instrument of power in the future. This will be all the more important given that currencies could compete internationally, temporarily disregarding Gresham's Law, which states that good money drives out bad money.
Time will tell which ones will be good and which ones will be bad. For now, the dollar, which is already in the lead, is gaining ground with stablecoins.

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What is a cryptocurrency?

It is a virtual and 100% digital currency. It therefore exists in the form of computer code.
Therefore, it does not exist in physical form (banknotes or coins).
It is used to pay, transfer value, or invest.
The term crypto refers to cryptography (encryption) to secure transactions and control the creation of new units.

How does it work?

This cryptocurrency is decentralized and is not regulated by a central bank or a government.
They are therefore not a currency in the classical sense. But they can be a means of exchange.
The system is based on blockchain technology. This acts as a large, public, and immutable ledger. All transactions are recorded in securely and chronologically linked blocks. Once validated, a transaction cannot be altered.

Smart contracts are computer protocols that automatically facilitate, verify and execute the terms of a contract without requiring the intervention of a third party (e.g., a bank).
The instructions are coded as conditional statements (If... THEN...). As soon as a predefined condition is met, the contract is executed.

DeFi (Decentralized Finance) is an ecosystem of services built on blockchain technology. Its goal is to recreate traditional financial services in a decentralized way and without intermediaries such as banks or brokers.
His challenge is indeed to bring more transparency to financial operations.

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