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Stablecoin Giants Take Lead in U.S. Treasury Holdings, Impacting Economy

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Stablecoins, digital assets pegged to the U.S. dollar, have transitioned from crypto curiosities to significant players in the American financial landscape. With Congress's recent move to regulate and legitimize them, stablecoins have attracted attention from banks, fintech firms, and major corporations eager to harness their potential.

Among the largest stablecoin issuers, Circle and Tether stand out not only for their market reach but also for their growing appetite for U.S. Treasury securities. These companies now hold more Treasuries than many sovereign nations, including South Korea and Saudi Arabia, raising questions about how this shift might influence the broader economy.

Stablecoins operate by maintaining a 1:1 backing to the dollar, usually through reserves composed predominantly of Treasury bills. This reserve strategy underpins their price stability and makes them attractive for rapid transactions with low fees. Tether alone holds over $100 billion in U.S. Treasuries, placing it ahead of countries like Germany and the United Arab Emirates in Treasury holdings. Collectively, stablecoin issuers rank as the 18th largest external holders of U.S. government debt, according to a recent Apollo report.

Although this scale is still modest compared to the $7 trillion U.S. money market fund sector, stablecoins are poised for rapid expansion, especially following the passage of the Genesis Act in July, which encourages further adoption. Market estimates suggest the stablecoin sector could grow to $2 trillion by 2028. For instance, USD, the second-largest stablecoin, has expanded its market capitalization by 90% in the past year to reach $65 billion. Its parent company, Circle, made headlines with one of the most significant IPO gains in recent decades when it went public in June.

At a time when traditional Treasury buyers like China and Japan are scaling back their purchases, stablecoin issuers are emerging as crucial new buyers of government debt. This shift may offer the U.S. Treasury a reliable source of funding. “Having stablecoin issuers always be there is a massive boost in terms of giving confidence to the Treasury about where to place debt,” said Yesha Yadav, Vanderbilt Law School professor and author of a recent paper on stablecoins and Treasury markets.

Advocates claim stablecoins could extend the U.S. dollar’s global dominance, similar to how the eurodollar system operates with dollar deposits held outside the country. They also suggest stablecoins could enhance the U.S. government’s ability to enforce international sanctions. David Sacks, the White House’s AI and crypto coordinator, recently argued that increased demand for Treasuries from stablecoin issuers might even lower long-term interest rates.

Despite the enthusiasm, some experts remain cautious. Kim Hochfeld, global head of cash and digital assets at State Street, told Fortune that the sector’s current scale is still too small to cause major economic shifts. “There’s a lot of hype, and the numbers are still tiny compared to what we see in normal traditional finance,” Hochfeld said.

Banking industry groups have raised concerns that stablecoins could draw deposits away from traditional banks, potentially threatening the liquidity banks rely on for lending. However, some stablecoin insiders dismiss this argument as “politically expedient.” One executive, speaking anonymously due to industry sensitivities, compared it to past bank lobbying efforts opposing the rise of money market funds, a financial innovation that ultimately did not harm banks’ lending abilities. “There are trillions of dollars in money market funds,” the executive noted. “Ultimately, it didn’t affect banks being able to make loans.”

As stablecoins continue to grow under the new regulatory framework, their evolving role in Treasury markets and the wider economy will remain a critical area for policymakers and financial experts alike.