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Stablecoins Surge as Central Banks Grapple With Digital Currency Challenge

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The global rise of dollar-backed stablecoins is pushing central banks, particularly in the UK and Europe, towards a critical juncture. With the United States embracing privately issued digital tokens, central banks now face a choice: regulate and compete, or risk losing monetary influence and financial innovation to the private sector.

The swift growth of stablecoins, privately issued digital currencies backed by assets such as the US dollar, is presenting central banks across the globe with a pressing policy dilemma. On one hand, these instruments are being championed by American lawmakers as a symbol of financial strength and global reach. On the other hand, institutions like the **Bank for International Settlements (BIS)** have raised the alarm over the potential destabilising effects of an unregulated stablecoin market.

Stablecoins are digital tokens typically pegged to traditional currencies, most commonly the US dollar. These assets allow users to transfer value almost instantly and at a lower cost than traditional banking systems. According to Citi Global Perspectives & Solutions, the market, currently valued at around \$162 billion, could grow to as much as \$3 trillion by 2030, largely fuelled by crypto-friendly regulation in the United States.

The UK and other advanced economies now find themselves playing catch-up. Despite early reservations, the Bank of England (BoE) has begun signalling a shift in tone. Analysts suggest this is driven by concerns that, without action, Britain could lose ground in financial competitiveness to jurisdictions moving swiftly to embrace the technology. Varun Paul, a former BoE fintech director, remarked that “stablecoins were once on the fringes of the system, now their growth is skyrocketing.”

That growth, however, does not come without warnings. BoE Governor Andrew Bailey recently suggested that stablecoins issued by large banks could present a threat to financial stability, particularly if poorly regulated. He added that tokenised deposits, digital representations of commercial bank holdings, may provide a more stable alternative to launching a central bank digital currency (CBDC).

While the **European Central Bank (ECB)** has long supported a centralised digital euro, progress has been slow and practical uptake remains uncertain. A global review by the Atlantic Council, a US-based think tank, shows that out of 134 retail CBDC projects, 4 have launched while 3 have been cancelled or rolled back.

One cautionary tale is Nigeria, which launched the “e-naira” in 2021. The project has struggled with low adoption, with many consumers opting instead for US-backed stablecoins. The initiative’s failure was attributed in part to a lack of public trust in the local fiat currency and the e-naira’s limited functionality. According to Nitin Datta from the United Nations Development Capital Investment Fund (UNDCIF), “you can’t shut out the market, stablecoins and exchanges will continue to play a role.”

There are further hurdles ahead. Ruth Wandhöfer, chair of the UK Payment Systems Regulator, pointed out that large-scale adoption of stablecoins still faces barriers such as limited financial education, poor infrastructure in some markets, and difficulties in cross-border use. “In many cases, using stablecoins can still be more expensive than legacy services like Western Union,” she said.

Moreover, governments face a more subtle threat: a potential erosion of tax revenue if a significant volume of transactions migrates to untraceable digital systems. That’s one reason policymakers are now warming to the idea of digital national currencies. As Josh Lipsky of the Atlantic Council’s Geoeconomics Centre put it, “If the Eurozone gets this right, it could set the global standard.”

In a financial world increasingly defined by decentralised innovation, central banks must now decide whether to push forward with their solutions or risk watching influence slip away to foreign regulators and private issuers. For the UK, with its legacy as a global financial centre, this decision carries more weight than ever.