OpenVoiceNews U.S.

Transparent. Unbiased. Yours.

Analysts Warn Stablecoins Could Erode Traditional Deposits

July 19, 2025
— Categories: Crypto

Download IPFS

Stablecoins may not yet pose a direct threat to conventional bank deposits, but that could soon change. Analysts at Morgan Stanley have issued a warning that the continued growth of these digital assets could gradually siphon liquidity away from the banking system, especially as their utility among institutional investors increases.

While stablecoins, digital currencies pegged to traditional fiat currencies like the U.S. dollar, currently lack deposit insurance and do not offer interest, their strength lies in speed and accessibility. The ability to settle transactions quickly and move funds across borders without the friction of traditional banking has made stablecoins increasingly attractive to businesses and financial institutions. Morgan Stanley's Betsy L. Graseck and her team noted that banks would be unwise to ignore these developments, highlighting that some institutions, such as JPMorgan, are already responding by launching tokenised deposit systems like JPM Coin and the planned JPMD.

The largest stablecoin, Tether, has already made a noticeable impact in short-term markets. As of March 2025, it held 66% of its reserves in U.S. Treasury bills, accounting for roughly 2% of the entire Treasury bill (T-bill) market. Morgan Stanley believes that if this trend continues, it could increase demand for short-term government securities and give the United States Department of the Treasury more leeway in its debt issuance strategies.

However, current regulation imposes significant restrictions. Under the Government and Investor Expectations for New and Unique Stablecoins Act (GENIUS Act), stablecoin issuers are not permitted to pay interest, and holders are classified as unsecured creditors. This limits their appeal when compared to money market funds, which can offer returns and a form of investor ownership. Nonetheless, both options are built on a similar foundation: providing a stable, cash-like investment backed by high-quality liquid assets. During market volatility, both stablecoins and money market funds often attract inflows as investors look for safety.

Although the stablecoin market, currently valued at $263 billion, remains largely driven by retail cryptocurrency usage, institutional interest is accelerating. With stablecoins operating on blockchain infrastructure, they offer a level of liquidity and portability that traditional bank deposits cannot match, unbound by any single financial institution or geographic location.

Despite this shift, Morgan Stanley suggests the movement of capital away from banks may be temporary. Funds raised through Treasury issuance often find their way back into the banking system, helping to cushion any outflows. Meanwhile, the regulatory framework continues to evolve. The GENIUS Act has passed in the United States Senate, while the Clarity for Digital Tokens Act (Clarity Act) is still under review in the House of Representatives. The final outcome of these legislative efforts will play a decisive role in determining how deeply stablecoins are integrated into the broader financial ecosystem.

With the likelihood of a United States Central Bank Digital Currency (CBDC) diminishing, the door appears open for private-sector innovation to lead the way. Stablecoins may not yet be replacing bank deposits, but they are rapidly changing what the future of money looks like.