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ECB Warns U.S.-Backed Stablecoins Could Erode Europe's Monetary Control

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The European Central Bank (ECB) has raised concerns that widespread use of U.S. dollar–denominated stablecoins in the European Union (EU) could undermine its ability to manage monetary policy. According to ECB adviser Jürgen Schaaf, if these digital assets gain significant traction in the region, they could limit policymakers' capacity to set interest rates and control money supply, similar to the challenges faced by developing economies that rely heavily on the U.S. dollar.

Stablecoins are digital assets pegged to a stable value, typically a fiat currency. U.S.-backed stablecoins, such as Tether's USDT and Circle's USDC, are pegged to the dollar and collectively account for over 80% of the total stablecoin market. The sector's market capitalization recently climbed to \$271.8 billion following the enactment of a U.S. stablecoin law on July 19. Schaaf noted that this legislation, while similar in purpose to the EU's Markets in Crypto Assets (MiCA) regulation, is more lenient in certain areas, potentially allowing for faster market growth.

Standard Chartered Bank has projected that the global stablecoin market could expand to \$2 trillion by the end of 2028. Schaaf warned that unless competitive euro-backed stablecoins emerge, U.S. dollar-denominated versions could cement early dominance, giving the United States strategic and economic advantages. These include the ability to finance its debt more cheaply and extend its global financial influence.

In the realm of cross-border transactions, Schaaf cautioned that dollar-based stablecoins could compete directly with euro-denominated payment instruments. They may also become a preferred option for tokenized settlements a process in which transactions are finalized using a digital representation of cash, further reducing reliance on the euro.

To safeguard European monetary sovereignty, Schaaf recommended increased support for euro-backed stablecoins and emphasized the potential of a digital euro, a central bank digital currency (CBDC) under development by the ECB. "The digital euro promises to be a robust line of defence of European monetary sovereignty," he stated.

Concerns over U.S. stablecoin dominance are not limited to Europe. China is reportedly exploring the possibility of issuing a regulated offshore yuan (CNH) stablecoin, according to Animoca Group President Evan Auyang in an interview with CoinDesk last week.

The ECB's warning underscores the growing geopolitical dimension of digital currencies, where the currency backing a stablecoin could influence global financial power dynamics. As the stablecoin market expands, the competition between dollar- and euro-based digital assets may play a key role in shaping the future of international finance.