Insights

Stablecoins prepare to enter mainstream payments

President signs legislation to regulate payment stablecoins, but how stable are they?

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The US readies to take the cryptocurrency plunge

Stablecoins, a type of cryptocurrency, prepare to enter mainstream payments

Suddenly, the world is taking cryptocurrencies seriously. Since July 2024, the market capitalization of stablecoins, a type of cryptocurrency, has grown 76% from $161 billion to over $280 billion (as of August 27, 2025).

Giant retailers such as Walmart and Amazon are considering issuing their own stablecoins, and President Trump signed stablecoin legislation in July 2025 to regulate the industry. China, which previously banned cryptocurrencies, is worried that a dollar-backed stablecoin will further entrench the US dollar as the world's dominant currency, and it's scrambling to catch up.

Stablecoins: stability in a volatile virtual world

Cryptocurrencies are notoriously susceptible to wild swings in price. That volatility lessens cryptocurrencies appeal for use in payments. Stablecoins reduce that volatility by fixing, or pegging, their value to that of another asset such as a currency or commodity. The peg assures users that the stablecoin's value will remain steady, eliminating fears about sharp changes in cryptocurrency valuations.

Stablecoins can be pegged to a single asset or a combination of assets. Table 1 presents types of stablecoins, how they maintain stability, and examples of stablecoins within the category.

TABLE 1: STABLECOIN TYPES, BACKING, AND EXAMPLES

Stablecoin category	Stability is maintained by	Examples
Currency-backed	Reserves of currencies such as the US dollar	Tether, USD Coin
Commodity-backed	Reserves of commodities such as gold	PAX Gold, Tether Gold
Algorithmically-backed	An algorithm that directs the purchase or sale of underlying cryptocurrencies; often no collateral	AMPL (Ampleforth)
Other	Computer programs that buy and sell the stablecoin to match demand and supply; some may use collateral	FRAX and DAI

Stablecoin market value is approximately $282 billion or about 7% % of total cryptocurrency value of $3.97 trillion. There are almost 350 stablecoins, but five stablecoins represent nearly 92% of the cryptocurrency category value (Table 2). Given the combined value of Tether and USDC, currency-backed stablecoins dominate the cryptocurrency market.

TABLE 2: TOP FIVE STABLECOINS BY VALUE

	Stablecoin		Backing	Value (billions)	% of stablecoin value
	Tether	USDT	Currencies, mostly US dollar	167.1	59.7%
	USDC	USDC	US dollar	66.9	23.9%
	Ethena USDe	USDE	Cryptocurrencies; synthetic dollar	11.8	4.2%
	USDS	USDS	Mix of US Treasuries, overnight repos and cash	7.8	2.8%
	Dai	DAI	Cryptocurrencies	42	1.5%
					92.2%

Note: Value is market capitalization | Source: https://www.coingecko.com/en/categories/stablecoins as of August 22, 2025 12:30 pm PT

The GENIUS Act

We're from the government and we're here to help

Things are serious – and terrifying, as President Reagan intimated – when Congress gets involved. In mid-July 2025, the Senate and House of Representatives passed the Guiding and Establishing National Innovation for US Stablecoins (GENIUS) Act, a regulatory framework for stablecoins. It provides for reserve requirements including reporting, redemption policies and anti-money laundering.

Passed with strong bipartisan support, the President signed the act on 18 July 2025. The act offers clear guidelines and certainty to the stablecoin industry, necessary ingredients for growth and leadership in a globally competitive industry.

President Donald Trump signs S.1852, The GENIUS Act, Friday, July 18, 2025, in the East Room of the White House. (Official White House Photo by Daniel Torok) | Source: https://www.flickr.com/photos/202101414@N05/54664276997/

Stablecoin issuance: the usual – and unusual – suspects

Stablecoin development is emerging from major banks including JP Morgan Chase, Bank of America, Citigroup and Wells Fargo which are discussing a joint stablecoin venture. The banks reckon that stablecoins will speed transactions, make cross-border payments easier and less costly, and will keep the banks competitive with cryptocurrency firms that dominate the stablecoin market.

Competition might also come from a surprising part of the business world – non-financial firms such as Amazon and Walmart plus other businesses like Expedia and airlines. Tired of paying high credit card fees to Mastercard and Visa, these businesses are evaluating whether to issue individual stablecoins or join a stablecoin consortium.

It's understandable to want to ditch the credit card companies, but it's expensive to replicate the features that those firms have developed. Take widespread use – most people have at least one card and nearly every merchant accepts them. There are other advantages too: It's easy to extend credit, make payments and manage the financial relationship between merchant and customer.

Credit cards are a profitable business. You might reasonably expect, then, that credit card companies would strenuously resist stablecoins. Instead, Mastercard and Visa are embracing virtual payments. The card companies support partners offering stablecoin-funded cards resulting in a cryptocurrency transaction process for merchant and customer that's as familiar as transactions using traditional payment methods.

An important part of those traditional methods is passing out rewards to card holders. With stablecoins, rewards can continue because stablecoin issuers keep cash or government securities to back their coins. Interest from that cash or bills can be used to fund rewards.

Prospects for stablecoins seems unlimited. Treasury Secretary Scott Bessent is enthusiastic when discussing potential holdings of Treasuries by stablecoin issuers. In an X post, he wrote that the stablecoins could grow to $3.7 trillion by the end of the decade, driving demand for treasuries, lowering government borrowing costs and helping to rein in the national debt. It's a win for the private sector, consumers, and the US Treasury, according to the Secretary.

Morgan Stanley, an investment bank, has lofty estimates for Treasuries needed as collateral for stablecoins. Morgan Stanley estimates that $200 billion of Treasury bills are held as reserves by stablecoin issuers. Depending on growth trajectories, stablecoin issuers could hold $400 billion to $1.6 trillion in Treasuries within a couple of years.

China's crypto lag

Stablecoin development in other countries are in various stages. Some global regions have a head start in the stablecoin payments race while others, such as China, lag. Europe is in front with its Markets in Crypto-Assets regulations for governing cryptocurrencies including stablecoins. Latin America excels with infrastructure readiness while Asia's focus is to use its infrastructure to focus on market expansion.

China lags far behind. Worried about capital flight and financial instability, it has banned all cryptocurrency activities. But worries about the US and others getting too far ahead in stablecoin payments has prompted China to issue a yuan-backed stablecoin. Capital controls and cryptocurrency prohibition complicate adoption and development, but the threat of being just a role player in global payments is spurring action.

TABLE 3: STABLECOIN DEVELOPMENT

Region	Priority	Infrastructure readiness	Regulatory clarity
United States	Institutional integration	High	High
Latin America	Cross-border payment	Very high	Moderate
Asia	Market expansion and trade	High	Varies
Europe	Compliance and security	Moderate	Very Hight

Sources: https://www.fireblocks.com/report/state-of-stablecoins/ https://coinlaw.io/stablecoin-statistics/ https://www.riseworks.io/blog/stablecoin-statistics-from-2025

Have we forgotten TerraUSD?

Stablecoins have intriguing virtues and benefits such as low-cost and faster transactions, but investors and users may be overlooking stablecoins' troubling risks. While steady value is the goal, it's good to keep in mind the collapse of TerraUSD, an algorithmic stablecoin which broke its peg to the dollar in May 2022. The collapse of TerraUSD and its sister stablecoin LUNA sent shockwaves through the cryptocurrency community.

A robust regulatory framework may prevent future collapses, but rules and regulations can lag technological developments. If stablecoins become integral to global payment processes and have large holdings of US treasuries as backing, a meltdown of one or more coins could threaten the stability of the global financial system.

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