ECONOMIC VIEWPOINT

Stablecoins: Everything You Were Afraid to Ask

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- Stablecoins allow the transfer of value over digital networks faster and cheaper than traditional payment systems.
- The right conditions need to be met before CAD stablecoins are widely adopted. Canada is lagging other countries, but this could change once a comprehensive regulatory framework is in place.
- The impact of stablecoins on Canada's financial system will be manageable, in our view. Confidence runs on private issuers cannot be ruled out. But robust oversight and provisioning can mitigate these risks. We believe concerns about traditional banks being hollowed out are overstated.
- Money that goes into stablecoins will be pulled from other sources like money market funds. Thus, net demand for Canadian T-bills will not change much.
- Building a thriving CAD-backed stablecoin ecosystem is a worthwhile goal—but it does not guarantee monetary sovereignty. The US is actively promoting the internationalization of USD-backed stablecoins. Canadian users may gravitate toward them if homegrown variants do not deliver the same benefits.

What are stablecoins?

Stablecoins are digital currencies whose value is typically pegged 1:1 to a fiat currency like the US dollar. In this way they are fundamentally different from cryptocurrencies like Bitcoin, whose value fluctuates based purely on demand and supply.

The vast majority of stablecoins are designed for payments, money transfers and storing value. They may be used for making investments in other assets but are typically not an investment themselves.

Why do they matter?

Because stablecoins are emerging potentially as a core component of modern financial infrastructure, which can make payments faster and cheaper.

Also, this isn't just a technological shift—it's a geopolitical one. With most stablecoins pegged to the US dollar, their global spread reinforces the greenback's dominance. The Trump administration is promoting USD-backed stablecoins as a strategic tool to extend the dollar's influence.

Canada, like other nations, faces a major dilemma: Adopt native stablecoins, or risk being left behind.

Are stablecoins money?

Stablecoins are not legal tender in most jurisdictions, including Canada and the US. However, when backed by transparent, regulated fiat reserves, stablecoins can inherit trust and function like money for certain purposes.

What is the difference between CBDCs and stablecoins?

The table below highlights key features of stablecoins, central bank digital currencies (CBDCs) and cryptocurrencies.

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CBDCs are sovereign money while stablecoins are not. Like cash in circulation, CBDCs are fully backed liabilities of the central bank. Their value is stored and tracked on purpose-built blockchains where the central bank maintains centralized control.

Stablecoins are issued by private entities which are regulated by governments, depending on jurisdiction. They are backed by reserves and operate on decentralized public blockchains like Ethereum or Solana.

Table 1
Digital Currencies: A Side-by-Side Comparison

Feature	Digital Currency		
	CBDC	Stablecoins	Cryptocurrency
Issuer	Central bank	Private, regulated entity	Varies (typically decentralized, with some exceptions)
Backed by	Central bank	High-quality liquid assets (e.g., T-bills)	Nothing
Monetary status	Legal tender	Not legal tender, but can be redeemed at par	Not legal tender, risky asset
Value of 1 token	Same as fiat currency	1:1 peg to fiat currency	Based on demand/supply
Price stability	Stable	Stable, but de-peg possible if reserves compromised	Volatile
Governance	Controlled by central bank	Controlled by corporation	Varies
Global adoption	Limited, experimental	Limited, growing	Prevalent
Example	e-CNY (in pilot stage)	USDC, QCAD	Bitcoin, XRP

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What factors can lead countries to lean towards CBDCs or towards stablecoins?

The Federal Reserve has firmly shelved the idea of a CBDC. The Bank of Canada has also put the idea on ice for now but maintains a "ready-if-needed" posture. In contrast, China is actively advancing its CBDC, called e-CNY (digital yuan), with large-scale pilots already underway.

Countries backing CBDCs want full control over digital money to support monetary policy, financial stability and inclusion. Others favour regulated stablecoins to encourage private-sector innovation.

Furthermore, some individuals, particularly in the US, worry that CBDCs reduce privacy since central banks could potentially track every transaction.

Are stablecoins stored as a bank deposit?

No. The value of stablecoins is stored in digital wallets on a public blockchain like Ethereum and Solana.

Let's use the stablecoin USDT as an example: When a user wants one USDT coin, they send one US dollar to Tether, the issuer. Tether creates one USDT and sends it to the person's digital wallet. Tether keeps the dollar in reserve assets and recognizes the coin as a liability on its balance sheet. The USDT is stored in the user's wallet, which is identified by a unique alphanumeric code (digital address).

In contrast, the value of a bank deposit is recorded in a private ledger maintained by the bank.

Are stablecoins covered by deposit insurance?

No. Stablecoins are not covered by the Canada Deposit Insurance Corporation (CDIC). If the issuer fails, holders may not recover their funds unless reserves are properly managed and disclosed.

Do stablecoins pay higher interest than deposits?

Most stablecoins do not pay interest. In fact, US law under the GENIUS Act prohibits issuers from offering interest directly. However, it is possible for coin holders to generate income through lending or staking at exchanges like Coinbase, but these involve greater risk and are not equivalent to bank interest.

What are reserves?

Reserves are the assets that the issuer holds against the coins that it has issued. Reserves are maintained in high-quality liquid assets like government T-bills or insured deposits. The US GENIUS Act requires reserves to be at least equal to the value of the tokens in circulation, ensuring users can redeem them at par.

How do I know the issuer has enough reserves?

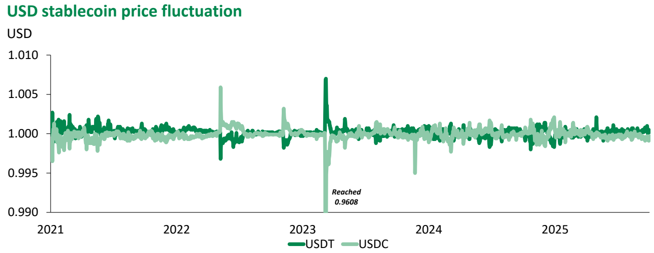
The transparency of reserves varies by issuer, though government regulations should provide a minimum standard to ensure public trust. Some, like Circle (USDC), publish regular attestation reports. Others offer less transparency, though this is improving. Canadian regulations are expected to mandate clearer disclosures.

What happens if a stablecoin loses its peg?

The value of a stablecoin depends on the issuer's ability to redeem tokens at par. If a stablecoin trades below its par value, it may signal concerns about the issuer's reserves or redemption ability. This can lead to loss of confidence and a rush for redemptions, similar to a bank run.

The Silicon Valley Bank collapse in 2023 triggered a temporary depegging of USDC because a portion of USDC reserves were held with the bank. This highlighted how banking shocks can spill over into stablecoin markets. A coherent regulatory framework and reserve transparency are essential to prevent such instability. More detailed discussions of financial stability risks in Canada may be found here and here.

Graph 1
Will the Real US-Dollar Coin Please Stand Up?



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Is stablecoin use growing?

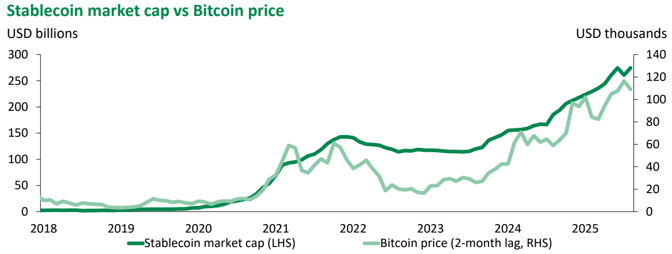
As of August 2025, approximately USD280 billion worth of stablecoins were in circulation globally, up from USD200 billion at the end of 2024. Nearly 99% of that value is pegged to the US dollar. Two issuers—Tether (USDT) and Circle (USDC)—dominate the market, accounting for roughly 85% of market share.

Market projections converge around the idea that USD stablecoins could reach USD2 trillion by 2028, reflecting both regulatory clarity and accelerating adoption.

According to the World Economic Forum, stablecoins facilitated over USD27.6 trillion in transaction volume in 2024. To be sure, about 95% of this activity occurred within crypto ecosystems, like trading and investing on decentralized finance (DeFi) platforms.

Real-world use cases are gaining traction. International money transfers (such as remittances), which can cost 5–10% of a transaction's value, are the ultimate low-hanging fruit. Merchant adoption is also accelerating in e-commerce, where stablecoins can offer faster and cheaper settlement than credit cards.

Graph 2
Stablecoin Use Has Been Largely Driven by Crypto Trading



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Why are stablecoins useful?

The simplest reason why usage of stablecoins is growing in the real world is that it allows cheaper, faster and programmable payments.

The cost of digital wallet-to-wallet transfers are minimal, especially on efficient networks like Solana or Polygon. Settlement times are under a few minutes, far quicker than the 1–3 days typical of credit card or SWIFT transactions.

While stablecoin users still face exchange fees for converting between fiat and digital currencies (called on-ramp/off-ramp costs in the prevailing jargon), these costs are falling. In the US, some retail users can now convert fiat to stablecoin and back for as low as 0.5%, particularly for USDC transactions on platforms like MetaMask and Coinbase. Integrating this into e-commerce platforms could lead to lower costs for merchants and ultimately lower prices for consumers.

Cross-border remittances are another promising use case. The IMF estimates that using digital tokens could reduce remittance costs by up to 60%, even after accounting for currency conversion and anti-money laundering (AML) compliance.

In the business-to-business space, stablecoins are streamlining treasury operations and trade settlement. For example, SpaceX uses stablecoins to collect payments for Starlink services in countries with underdeveloped financial infrastructure.

Realizing these benefits in Canada will require scale and public trust. Key risks—such as confidence runs, fraud, privacy concerns, and cybersecurity vulnerabilities—must be addressed through robust infrastructure and regulation. Readers can explore these issues here, here and here.

Can I use stablecoins to pay for goods and services in Canada?

Not widely yet. While some merchants and platforms accept stablecoins, most businesses still rely on traditional payment methods.

Research from the Bank of Canada confirms that usage outside of speculative crypto trading is minimal. A recent survey by the Financial Consumer Agency of Canada found that public awareness is low, and perceptions are often negative. Only 21% of respondents could correctly define a stablecoin, and many cited concerns about fraud and lack of consumer protection.

Still, Canadian fintechs are making progress. Stablecorp and PayTrie have launched CAD-backed stablecoins—QCAD and CADC, respectively. Meanwhile, Tetra Trust, a regulated custodian, plans to launch a CAD-backed stablecoin in early 2026, with support from major institutions including Wealthsimple, National Bank and Shopify.

What's holding it back?

The development of CAD stablecoins has been hampered by regulatory uncertainty.

The US and EU have established comprehensive regulatory frameworks (GENIUS Act and MiCA, respectively). These set clear rules for how stablecoins can be issued, managed and traded across their jurisdictions.

In Canada, stablecoin oversight is shared among federal regulators, provincial securities commissions and the Bank of Canada. This has led to fragmented and sometimes inconsistent rules, which has hampered innovation.

The Bank of Canada has called for a more unified national framework, warning that the current patchwork approach creates uncertainty for businesses and consumers alike.

Will Canada have its own GENIUS Act?

Industry watchers hope that Canada's federal government will draft new legislation to regulate stablecoins. This will include licensing requirements, reserve standards, redemption rights and consumer protection. However, Canadian authorities have not set a specific time frame for this.

Once a coherent regulatory framework is in place, we expect adoption will accelerate sharply, like in the United States, where the GENIUS Act helped clarify the regulatory landscape and fuelled industry growth.

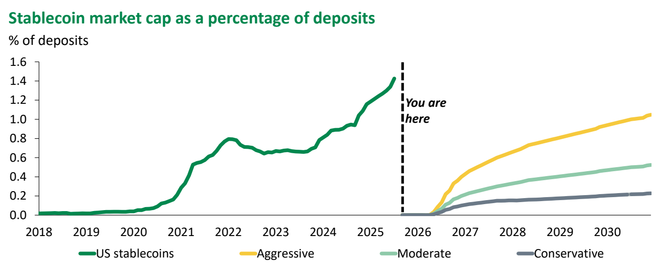
How quickly will CAD stablecoins grow?

The right conditions need to be met before CAD stablecoins are widely adopted. These include support from regulators, investment in risk mitigation by issuers, and clear cost advantages for users. We are encouraged that many signs are pointing in a positive direction.

The following scenario-based projections illustrate how regulatory and market dynamics could shape adoption. These are not forecasts, but illustrative pathways:

- **Conservative:** Regulatory clarity improves slowly. Banks remain cautious; issuance is led by fintechs. Adoption is largely institutional, with limited retail use beyond crypto trading and DeFi.
  Market cap after two years: CAD5 billion, or 0.1% of total Canadian bank deposits.
- **Moderate:** Clear federal guidelines by mid-2026. Select Canadian banks begin issuing CAD stablecoins. Retail adoption emerges, especially for remittances and e-commerce.
  Market cap after two years: CAD12 billion, or approximately 0.4% of total deposits.
- **Aggressive:** Canada launches a national digital strategy. Major banks compete for market share, investing in infrastructure and product development. Broad business and consumer adoption follows.
  Market cap after two years: CAD25 billion, or approximately 0.8% of total deposits.

Graph 3
CAD Stablecoin Usage May Increase Sharply After Take-Off



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How does that affect demand for Government of Canada debt securities?

Future Canadian legislation will likely require stablecoin issuers to maintain reserves in safe, liquid assets like short-term Treasury bills. As such, some analysts believe that stablecoins will bid up Government of Canada T-bills.

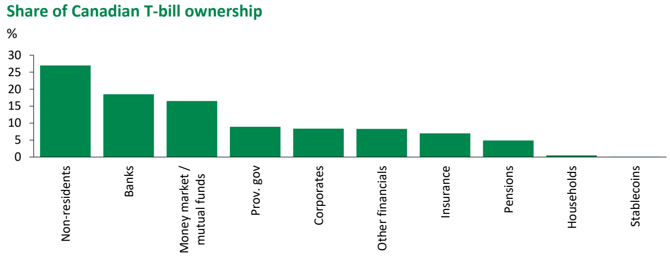
But funds flowing into stablecoins must flow out of somewhere. For example, if users shift money out of money market funds that are typically parked in T-bills, then it does not increase net demand for those bills. If users shift funds out of chequing deposits, it would reduce banks' capacity to lend. Finally, if users tap their investments in other assets (GICs, provincial or corporate bonds, equities, etc.), then the funds come at the expense of those other assets.

Net-net, we expect the impact on government bond yields to be limited under all three growth scenarios.

So stablecoins would not increase demand for Canadian assets?

The only way that CAD stablecoins would add net demand for Canadian assets is if foreigners decide to hold CAD stablecoins. In that situation, the funds would be pulled from non-Canadian

Graph 4
Stablecoin-Driven Demand for T-Bills Will Divert Funds from Elsewhere



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assets. But the loonie does not have the international clout of the US dollar, so this flow will likely be modest.

Will digital money hollow out banks?

Some critics argue that stablecoins could drain bank deposits and constrain lending. This concern is overstated, in our view.

When users convert deposits into stablecoins, the issuer typically uses those funds to purchase government securities from another holder, which puts the deposits back into circulation. The reordering of deposits may pose risks if it leads to uneven distribution across institutions, especially in fragmented banking systems like the US. However, Canada's concentrated banking model, dominated by the Big Five banks, may mitigate these risks.

Moreover, even under our aggressive growth scenario, stablecoins would remain small relative to total deposits.

Will stablecoins drive out credit cards?

Stablecoins and traditional payment rails are likely to coexist for the foreseeable future.

Traditional systems like credit cards provide additional services that stablecoins do not, such as revolving credit, chargeback features, fraud detection, etc. They also have a track record of consumer protection and widespread acceptance.

In fact, credit card companies are themselves adopting stablecoins to improve their settlement infrastructure. Under this model, Visa or Mastercard, etc., remain the storefront, while blockchain payments become the back-end infrastructure layer (e.g., Visa Direct and Mastercard's Multi-Token Network).

Why is the Trump administration promoting USD stablecoins?

The Trump administration is promoting greater international use of USD-backed stablecoins because their global spread reinforces the greenback's dominance in digital commerce and cross-border payments.

Since the GENIUS Act requires stablecoins to be backed mainly by US T-bills, foreign adoption creates new and sticky demand for US debt, at least at the very short end of the Treasury curve. This is particularly useful at a time when geopolitical rivals like China are reducing exposure to US Treasuries.

For other countries, including Canada, if their citizens widely adopt USD stablecoins in payments, it could increase demand for US dollars and erode their own monetary sovereignty.

Only time will tell where this goes. But the US has a clear strategy, a head start and momentum. Canada lags in all three.

What happens if Canada continues to lag?

If Canada continues to fall behind, it will push Canadian users toward foreign-issued stablecoins. Indeed, the fact that a Canadian e-commerce platform recently started accepting payment in USDC should be a wake-up call. If this becomes widespread, it could increase pressure on the Canadian dollar and dilute the transmission of the Bank of Canada's monetary policy.

We add another sobering thought: Building a thriving CAD-backed stablecoin ecosystem is a worthwhile goal—but it does not guarantee monetary sovereignty. The Canadian dollar is a minor player globally, while the US dollar dominates blockchain-based payment systems. If USD-based ecosystems continue to deliver lower costs and better functionality, Canadian users may gravitate toward them, especially if homegrown alternatives don't measure up.

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