ECONOMIC VIEWPOINT

US Dollar Stablecoins: The Updated State of Play

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- For many people, "blockchains" are simply the technology behind Bitcoin. But the pioneers working on early blockchain systems in the 1990s were trying to build a way to timestamp information and transfer value securely, efficiently and without a central intermediary.
- The rapid rise of stablecoins has brought that original mission back into focus. Stablecoin adoption is spreading across businesses, payment networks and financial platforms. It appears crypto has finally found a purpose in the real world.
- Our earlier primer covered the building blocks. This note provides an update on what you need to know to stay current on the topic. We will limit this discussion to "fiat-backed" stablecoins, i.e., digital tokens that are pegged to fiat currencies, mainly the US dollar.

Section 1: The Basics

What problems are stablecoins solving?

Stablecoins are still mainly used as a bridge between traditional finance and digital assets. Without them, crypto traders would incur costs every time they moved funds between banks and cryptocurrencies.

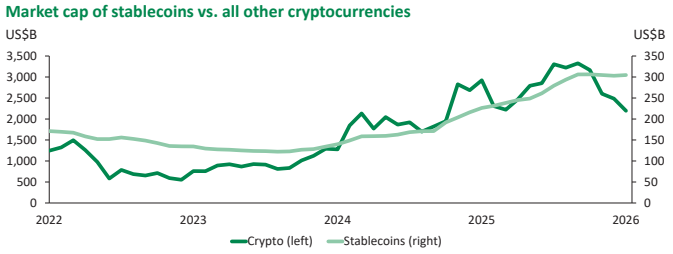
Businesses are also beginning to use blockchains for practical purposes, particularly international trade, remittances and routine treasury operations. Some businesses are even trialling them for use in retail and online shopping.

Outside the corporate world, stablecoins have become useful in countries with limited banking access or unstable local currencies. Surveys consistently show high adoption in places like Nigeria and Venezuela where users view them as a more reliable store of value and a practical payment tool when trust in the local financial system is low.

How large is the stablecoin market today?

As of January 2026, about US$310 billion in stablecoins was outstanding worldwide, up from US$205 billion at the end of 2024. Supply has historically risen and fallen with broader crypto markets, but that pattern is beginning to change. (See graph 1.)

Graph 1
Stablecoin Market Capitalization Is Resilient Despite Crypto's Fall



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Despite the recent crash in cryptocurrencies, which erased US$1 trillion in market value, stablecoin market capitalization has held steady and transaction volumes have continued to grow. This suggests the asset class is becoming more resilient, with adoption increasingly driven by real economy use cases rather than purely crypto market flows.

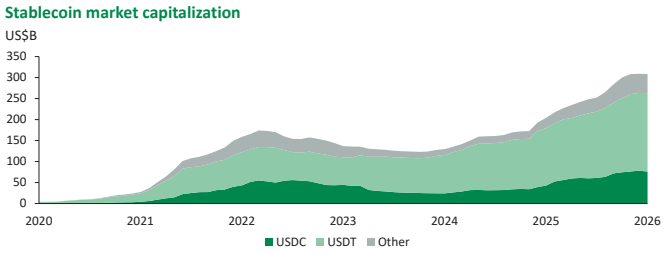
What are the main currencies and issuers?

More than 99% of the total stablecoin supply is pegged to the US dollar. The market is dominated by two issuers: Tether (USDT) and Circle (USDC), which together account for about 85% of global stablecoin supply.

Euro-backed stablecoins remain a small segment at roughly €500 million, representing less than 0.5% of the market. Growth has picked up since the EU's MiCA framework came into force last year, with EURC emerging as the leading token.

CAD-denominated stablecoins are still at an early stage. QCAD became Canada's first fully regulated CAD-backed stablecoin in November 2025, and CADD is expected to launch sometime this year. Adoption is limited for now, but 2027 may prove to be a turning point as regulatory clarity improves. (More on this below.)

Graph 2
The Stablecoin Market Is Dominated by USDT and USDC



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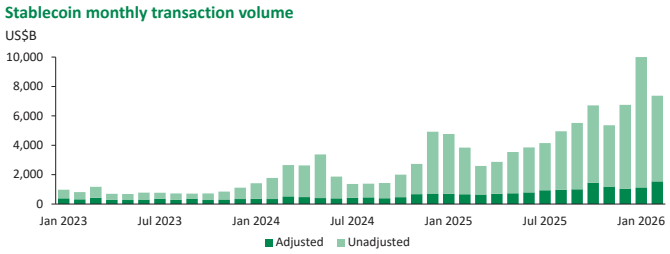
What's the total turnover?

Allium, a blockchain analytics firm, estimates that total transactions in stablecoins were around US$62 trillion in 2025. But this figure is inflated by automated activities like high-frequency trading. Raw blockchain data typically does not indicate the purpose behind a transaction.

To get a clearer picture, Allium researchers filter out wallets that show bot-like patterns, such as extremely high transaction counts or balances that repeatedly fall to zero. After removing this noise, they estimated that economically meaningful payments totalled roughly US$10 trillion in 2025, with USDT accounting for 58% of this activity and USDC for 41%. (See graph 3.)

As we discuss in Section 4, only a small share of this volume reflects real-world payments for goods and services. The overwhelming majority continues to be for trading other digital currencies.

Graph 3
Raw Trading Volumes Are Exaggerated by Bot-Like Activity



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Section 2: The Two Titans

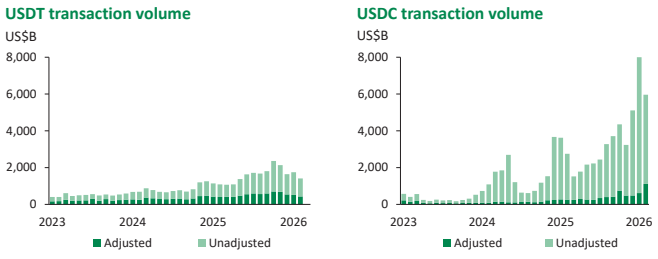
What are the key differences between USDT and USDC?

While both are backed by the US dollar, there are significant differences between them. A helpful analogy is the difference between the freewheeling offshore eurodollar market of the 1960s–70s and the regulated onshore system.

USDT is the "offshore" variant. Tether, its issuer, operates out of El Salvador, a crypto-friendly jurisdiction. Most US-regulated exchanges and payment platforms restrict payments in USDT. But outside the United States, USDT dominates trading and cross-border payments thanks to deep liquidity and its sheer scale. Average transaction sizes are smaller, which suggests it is more popular with retail users.

USDC is issued by Circle, a US-based fintech under full US regulatory oversight. Its reserves are held in cash and short-term Treasuries and are verified monthly. US regulated platforms such as Stripe readily support USDC. While it is less commonly used outside the US, USDC has become the preferred choice for institutions and fintechs because of its regulatory compliance and transparency.

Graph 4
USDC Dominates Total Transaction Volumes Despite Lower Market Cap



Allium and Desjardins Economic Studies

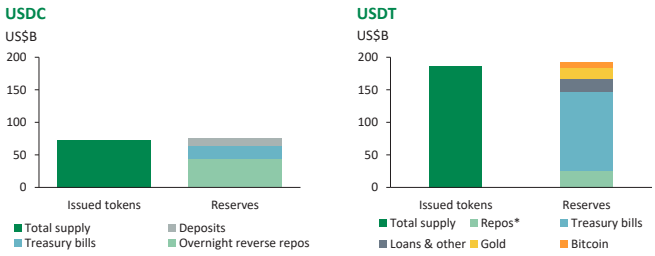
Is one safer than the other?

The "safety" of a fiat-backed stablecoin depends on its issuer's ability to redeem its tokens at par in real time. That hinges on transparency, reserve adequacy and liquidity.

The graph below compares the reserve portfolios of the two issuers. Tether shows higher equity (the market value of reserves minus the value of tokens outstanding), but it holds some part of its reserves in risky assets like Bitcoin and illiquid assets like secured loans, making it more exposed to mark-to-market and liquidity risks.

Rating agency S&P incorporates these factors into a five-point scale of stability, where 1 is the strongest and 5 is the weakest. In its latest assessment, the agency rated USDC at 2, while USDT got the bottom mark of 5.

Graph 5
The Two Tokens Are Backed by Different Reserve Quality



* $19B in overnight repos, $6B in term repos (residual average maturity less than 90 days)
Circle, Tether and Desjardins Economic Studies

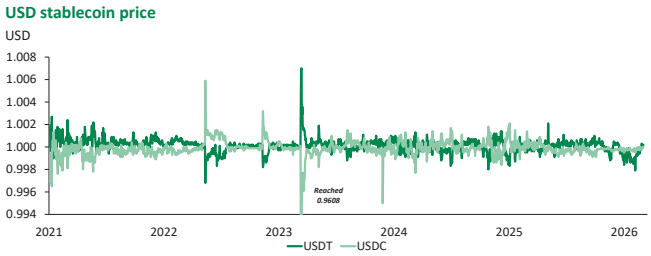
Then why do they both trade at the same value?

Both stablecoins are pegged 1:1 to the US dollar. When either token trades away from $1, traders buy the cheap token or sell the expensive one until the price returns to parity. If a token drops meaningfully below $1, qualified institutions can redeem it with the issuer for fiat dollars, making a profit after fees and pulling the price back up to the peg.

This system of arbitrage and redemption works as long as trust in the issuer and its reserves remains intact. But this should not be taken for granted. The Silicon Valley Bank collapse in 2023 briefly pushed USDC off its peg because a portion of its reserves were held at the bank. Confidence was restored only after the FDIC guaranteed those deposits.

Financial history is full of bank runs and broken pegs, and stablecoins are no exception. Even with full reserve backing, parity is not guaranteed under severe market stress.

Graph 6
Will the Real US Dollar Coin Please Stand Up?



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Is there a lender of last resort?

There is currently no federal backstop in place in the United States to support a stablecoin issuer in distress. The *GENIUS Act* mandates full reserve backing but sidesteps the issue of lender of last resort. Oversight is split across agencies, including the FDIC and the Federal Reserve, yet none has an explicit mandate to provide emergency liquidity to a failing issuer.

The Federal Reserve has published research outlining potential financial stability risks associated with stablecoins, but it has not announced any concrete contingency plans or crisis management tools for the sector.

Section 3: The Battle over Interest

Why do stablecoins not pay interest?

Regulators treat stablecoins as a means of payment, not investment products. If issuers were allowed to pay interest, stablecoins would resemble bank deposits, but without the capital requirements, consumer protections and other obligations banks must meet.

Banks have lobbied hard on this point, and policymakers in the US and elsewhere have largely agreed. As a result, the default regulatory stance is to keep stablecoins non-interest-bearing to avoid blurring the line between payment tokens and deposit-taking institutions.

That said, major crypto firms continue to push for regulatory changes that would allow them to offer interest on stablecoin holdings.

Why do issuers want to pay interest?

Stablecoin issuers earn most of their revenue from the interest generated on the cash and short-term government securities held as reserves. As the supply of coins grows, so does the size of the reserve portfolio—and the interest income that comes with it.

Paying interest (or "yield") to coin holders would reduce the issuer's margin per coin, but crypto firms argue it could attract more users. If yield attracts more users, the issuer can still come out ahead because a larger supply of coins means a larger reserve pool earning interest, even if the margin per coin is smaller.

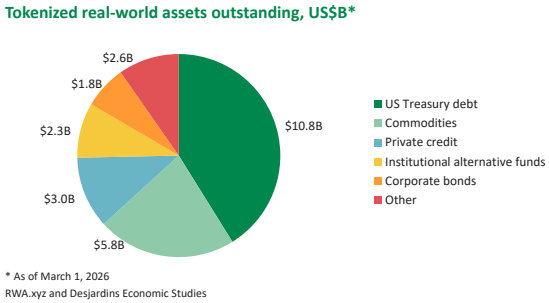
This is no longer just a theoretical argument. Crypto firms are already developing workarounds to the prohibition on paying interest directly. The most prominent approach is the tokenized money market fund (TMMF), which delivers yield to users while staying within current regulatory constraints.

What are tokenized money market funds?

TMMFs are money market fund shares issued and traded on a blockchain. In the United States, they are legally classified as securities, not stablecoins, which means they fall outside the *GENIUS Act*'s prohibition on paying interest.

TMMFs are typically backed by US Treasury bills (T-bills) and offer yields close to the 3-month T-bill rate. They provide a way for stablecoin holders to earn interest without changing the regulatory status of the stablecoins themselves. At present, about US$10.8 billion is invested in TMMFs—roughly double the level a year ago—with BlackRock and Circle emerging as the largest issuers. (See graph 7.)

Graph 7
Tokenized Assets



* As of March 1, 2026
RWA.xyz and Desjardins Economic Studies

Are regulators softening their stance on interest?

The *GENIUS Act* established the core regulatory framework for stablecoins in the United States and explicitly prohibits the payment of interest. A follow-up bill, the *Clarity Act*, is now being debated in the Senate. Its goal is to set broader rules for digital assets, including stablecoins. As expected, both banks and crypto firms have lobbied heavily on the interest question, which has slowed the bill's progress.

The January 2026 revised Senate draft introduced a compromise. It maintains the ban on interest for passive holdings, but allows a range of activity-based rewards tied to actual use for things like payments and staking. This isn't a full policy shift, but it does point to a more practical, use-driven exception.

Negotiations are ongoing across several Senate committees and industry stakeholders, and it may take some time to resolve this point. The White House is trying to speed up the process. Both crypto firms and banks are watching this closely.

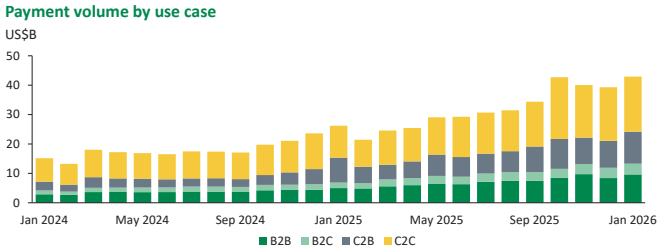
Section 4: The Payment Rail

How widely are stablecoins being used in the "real world"?

Stablecoin payments for goods and services are growing but are still relatively rare. Measuring this activity accurately is difficult because raw blockchain data usually does not indicate the purpose of a transaction.

Researchers at the Boston Consulting Group and Allium have developed proprietary algorithms to identify which on-chain transactions are genuine payments. Their analysis suggests that US$350–$500 billion in stablecoin transactions in 2025 was used for real-world goods and services. That is less than what Americans spent on beer alone using traditional payment methods. Still, the volume of stablecoin activity going toward real-world commerce is rising. (See graph 8.)

Graph 8
Stablecoin Payments in Real-World Applications



Allium and Desjardins Economic Studies

Who is using them and why?

There are four types of payments.

Consumer-to-consumer (C2C) payments are mainly cross-border remittances. The growth of stablecoins in this area is no surprise since the cost of sending digital money is lower over blockchains than via traditional money transfers. According to McKinsey, a management consultancy, stablecoin penetration into the remittance market remains limited but is expanding quickly.

Business-to-business (B2B) payments include cross-border trade, routine treasury operations and vendor payments. One potential advantage cited by industry participants is the ability to settle immediately upon order fulfilment—for example, receiving payment for cargo as soon as a ship docks rather than waiting the usual couple of business days.

The third-largest category is consumer-to-business (C2B) payments such as online shopping or gambling, where stablecoins are posing a direct challenge to the traditional credit card model in e-commerce.

Finally, business-to-consumer (B2C) payments like employee payrolls appear quite limited for now.

Which non-crypto companies are prominent users of stablecoins?

Several well-known brands including Shopify, Regal Cinema and Gucci say they accept stablecoin payments. Payment processors like Stripe and Coinbase support USDC payments for thousands of businesses. But this doesn't necessarily mean a meaningful share of their sales are actually settled this way.

To gauge real business impact, we used Large Language Models (LLMs) to review recent EDGAR filings and investor relations materials for all non-crypto companies in the S&P 500. While more companies mentioned stablecoins over the last year, none have claimed that they are a significant component of their payment flows.

Behind the scenes, stablecoins are increasingly used in the infrastructure layer of payments—even if end users and merchants don't always see it directly. For instance, Visa is running pilots such as Visa Direct, which uses stablecoins to allow near-instant payments to cardholders.

Section 5: Dollars, Dollars, Everywhere!

Which countries are leading adopters of USD stablecoins and why?

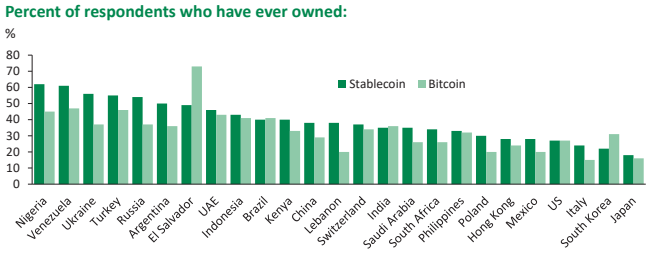
Crypto analytics firms such as Chainalysis and TRM Labs publish country-by-country adoption indices that link on-chain transactions to other indicators like web traffic patterns. Other researchers, including Cornell University's Bitcoin Club, survey individual users directly. (See graph 9.)

Across these datasets, two clusters stand out.

The first set includes Venezuela, Nigeria, Argentina and Russia. In these jurisdictions, domestic financial systems suffer from hyperinflation, weak institutions or sanctions. USD-backed stablecoins offer residents a more reliable store of value and a way to access international markets.

The second group includes the UAE, a major hub for crypto trading firms, as well as India, Pakistan and the Philippines, all of which receive large volumes of remittances, a major use case for stablecoins.

Graph 9
Stablecoin Usage: A Retail Investor Survey



Cornell Bitcoin Club and Desjardins Economic Studies

Are USD-backed stablecoins creating new demand for the US dollar?

Funds flowing into stablecoin reserves must originate from existing assets. When a US resident moves money out of a bank deposit into USDC, she is not creating new demand for US dollars. She is simply switching from one dollar asset to another.

Stablecoins generate net new demand for the dollar only when foreigners choose to hold USD-backed tokens instead of local currency assets. In that case, funds are pulled out of non-US assets and placed into the issuer's reserve portfolio, which is made up of dollar assets. As global adoption grows, this mechanism can channel foreign capital into US markets.

Could it backfire on the US dollar?

Money can flow out of stablecoins just as easily as it can flow in. While there are many possible scenarios, one major structural weakness stands out: the system is two-tiered.

USDC and USDT dominate in very different market segments, answer to different regulators and are backed by very different reserve portfolios. Yet the market currently treats them as fungible. That disconnect could be exposed in a real crisis.

For instance, if the volatile assets in Tether's reserves like gold and Bitcoin fall substantially in value, the market may question the issuer's ability to redeem all its tokens at par. That could trigger a classic bank run, when everyone rushes to redeem their tokens, forcing a fire sale of its reserve assets, including US Treasury debt.

Section 6: Impact on US Treasuries

What's the connection between stablecoins and US Treasuries?

Under the 2025 *GENIUS Act*, stablecoins must be fully backed by high-quality liquid assets, primarily short-term US T-bills. As a result, stablecoin growth directly translates into additional demand for T-bills. The Treasury Borrowing Advisory Committee has noted that continued expansion of the stablecoin market is likely to create structural, ongoing demand for these securities.

In practice, issuers hold reserves in slightly different ways: Circle places most of its backing in overnight repos, while Tether holds a larger share in T-bills. (See graph 5.) Despite these differences, both structures ultimately tie stablecoin issuance closely to the short-end of the Treasury market.

Why do they hold T-bills and not duration?

Long-duration bonds carry greater interest rate risk. Their prices fall when yields rise, increasing the chance that an issuer might not have enough liquid assets to honour withdrawals. The collapse of Silicon Valley Bank illustrated this clearly: losses on long-duration securities can strain thinly capitalized balance sheets and undermine confidence. Staying in the short end avoids this problem because T-bills carry minimal duration risk and can be sold or rolled over with little price volatility.

What impact do stablecoins have on the T-bill yield?

Circle and Tether currently hold US$141 billion in US T-bills. Including other issuers and tokenized money market funds raises that number to around US$160 billion. That's about 2.5% of the outstanding T-bill stock. Their net purchases of US$30–$40 billion in T-bills per year in 2024 and 2025 took down less than 10% of annual net issuance. At these levels, stablecoin reserve flows have not significantly distorted the T-bill market.

Still, there's a real tail risk here: a loss of confidence in a major stablecoin could force its issuer to sell down its war chest. According to estimates from the Bank of International Settlements, a forced liquidation of US$3.5 billion in one week—roughly a two-sigma event—would move the 3-month T-bill yield by 2.5 to 3.5 basis points, though in some scenarios the impact could be larger.

Could T-bills become scarce in the future?

Some commentators worry that if stablecoin reserves continue to grow, they might soak up all the T-bill supply. We think this concern is overstated. Reaching that scale requires very aggressive assumptions for future stablecoin adoption. In addition, issuers can lend money via fully collateralized overnight repos instead of just buying T-bills.

And even if T-bills become scarce, the Treasury may simply issue more. For example, researchers at the Brookings Institution have proposed a special "perpetual" T-bill designed specifically to provide liquidity for stablecoin issuers.

Section 7: Evolving Regulations in Canada

What is the new federal Stablecoin Framework?

The Canadian federal government formally proposed a broad framework for regulating stablecoins in February 2026. This was part of Bill C-15, the *Budget 2025 Implementation Act*.

The proposed framework appoints the Bank of Canada as the main regulator and applies to all fiat-backed stablecoins offered in Canada, not just those pegged to the Canadian dollar. It mirrors key features of the US *GENIUS Act*, including requirements for reserve coverage, regular audits and a ban on paying interest.

The issue of interest is still being debated between Canadian stakeholders, just like it is south of the border. We expect Canadian policymakers to monitor how the US *Clarity Act* resolves this issue before finalizing their own approach.

When will it be implemented?

Once Bill C-15 is passed by Parliament, the Department of Finance will publish detailed regulations in the Canada Gazette for consultation before finalization. The text of the framework notes that "*It is expected that this work will continue for 12–18 months and formally come into force in 2027.*"

In the meantime, prospective issuers of stablecoins will continue to operate in a legal limbo, which could limit progress in the near term. Assuming the federal legislation is passed next year, 2027 could be a banner year of growth for the industry.

Final Thoughts

People talk about USD-backed stablecoins in all sorts of ways. Some say they'll replace today's payment rails and boost the international clout of the US dollar, while others doubt they're useful for anything beyond crypto trading.

Our view reflects what we see in the data. Stablecoin use in the real world is growing, though it's still early days. Their advantages are obvious in areas like remittances and business payments where quick settlement matters. But market penetration remains limited for now. In practice, blockchain-based solutions are carving out a niche in the payments landscape largely through trial and error.

There are potential risks too. In its present form, the USD-backed stablecoin market is a two-tier system whose resilience to real shocks is untested. Maintaining trust is essential for the system to work, especially given the absence of any formal backstop if an issuer runs into trouble. Finally, while regulatory clarity is improving, the rules are still being written.

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