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Chapter 1: Currency, crypto, and payment infrastructure

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- The key to monetary power now lies in **payments architecture, trust networks, and liquidity access.**
- The competition is **not currency vs. currency**, but **settlement network vs. settlement network.**
- The dollar is **not weakening** - it is being **re-encoded** into digital networks.
- Stablecoins function as **digital Eurodollars, extending US monetary reach**.
- Central bank digital currencies (CBDCs) are about **sovereignty and control of rails**, not replacing currency.

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Introduction: Fragmentation at the edges, dominance at the core

In 2025, the longstanding debate over the dollar's structural dominance was reignited over several factors, including a dollar-negative macro environment, central bank pursuit of alternative reserve strategies, and periodic market stress. Despite the fading of market volatility associated with the 2024 US election and subsequent policy shifts fading, our FX strategists expect further dollar weakness in the year ahead, based on valuations, balance of payment dynamics, and shifting monetary policy[1]. This, coupled with the dollar losing its top-yielding status, continues to fuel the broader discussion about US decline, challenging theories of US exceptionalism by suggesting that lessening economic strength diminishes political influence.

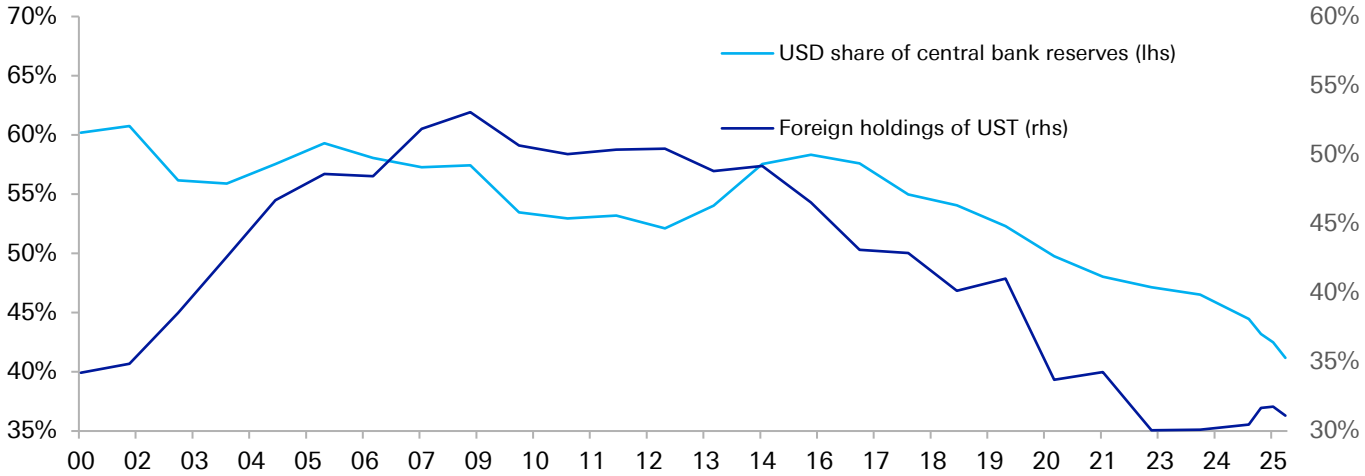
However, we believe this view overlooks a more fundamental transformation. In this chapter, we argue that the dollar is not weakening but is being re-encoded into digital networks. Just as the offshore Eurodollar market cemented the USD's global reach in the late 20th century, USD-backed stablecoins are now extending dollar usage into new digital domains[2]. As the Bank for International Settlements (BIS) observes: "Eurodollars are offshore private dollar deposits; stablecoins are on-chain private dollar deposits.[3]" Thus, while stablecoins are not a flawless "digital dollar substitute" and are not without their own risks, the passage of the US GENIUS Act in July 2025 has pushed other states to treat USD-stablecoin as a serious geopolitical issue.

To explain why stablecoins have moved to the center of global discussions on countering US monetary power, this chapter documents a broader shift: the contest for global influence is moving away from a simple currency-vs-currency dynamic and toward a competition over payments architecture, trust networks, and liquidity access. This is visible in efforts to build alternatives to SWIFT and CHIPS – such as China's CIPS and Russia's SPFS – and in the rise of Central Bank Digital Currencies (CBDCs) and local-currency-backed stablecoins as strategic tools. These initiatives reflect attempts to chip away at USD dominance, not to replace it outright.

The emerging system is therefore not "post-dollar", but rather more fragmented and contested. Countries are increasingly using payments infrastructure, capital controls, and digital currency design as geopolitical instruments. In this chapter, we highlight the US as a case study, where the Trump administration is promoting stablecoins to maintain its status holding "the world's leading financial system and capital markets, including the dollar's global reserve currency status" as stipulated in the White House's latest National Security Strategy[4]. This evolution supports our series' wider "Great Power Rebalancing" thesis: the coming decade will be defined by a transition from the familiar order of liberal institutionalism to what we call "infrastructure realism" – a world where power is exercised through networks, rails, and code. Within this new paradigm, we expect the US (and the dollar) to remain dominant.

[1] Saravelos, George, and Tim Baker. 2025. Review of The Big FX View: 2026 Outlook - Dollar Slow Down. Deutsche Bank Research. November 25, 2025. https://research.db.com/research/Article?rid=07910f3c-b4f7-11f0-bfe0-a5d4768f8d66-604&kid=RP0001&documentType=R&wt_cc1=IND-3146993-0000.
[2] Laboure, Marion, and Camilla Siazon. 2025. Review of Stablecoins: How the GENIUS Act Strengthens US Geopolitical Dominance. https://www.dbresearch.com/PROD/RI-PROD/PDFVIEWER.calias?PdfViewerPdfUrl=PROD0000000000603306 . Deutsche Bank Research Institute. September 17, 2025.
[3] Aldasoro, Iñaki, Perry Mehrling, and Daniel Neilson. 2023. "On Par: A Money View of Stablecoins." https://www.bis.org/publ/work1146.pdf .
[4] National Security Strategy of the United States of America. (2025). https://www.whitehouse.gov/wp-content/uploads/2025/12/2025-National-Security-Strategy.pdf

Figure 1: The USD's share of central bank reserves has been falling



Source: Haver Analytics, Deutsche Bank Research. Central bank reserves include gold at market prices.

1. Payment infrastructure as an instrument of statecraft

To understand why the US is prioritizing the stablecoin revolution as part of its geopolitical strategy, it is important to first analyze how control over traditional payment rails like SWIFT became a core instrument of American statecraft over the 21st century. Farrell & Newman (2019) term this "weaponized interdependence," arguing that states dominating key network hubs can use that position to coerce others[5]. This is achieved through two primary mechanisms: monitoring information flows (the panopticon effect) and blocking access to deny services (the chokepoint effect).

Importantly, the use of economic chokepoints has some precedent. A useful historical illustration of this mechanism can be found in the American Civil War in the 19th century, when the Union combined military pressure with control over financial and trade infrastructure to cut the Confederacy off from external trade and financing. Lacking tax capacity and market access, the Confederacy resorted to printing money, which triggered severe inflation and a collapse of monetary credibility. The Union, by contrast, financed its war effort through taxes, bond issuance, and the controlled issuance of "greenbacks." The lesson is enduring: monetary power rests on credibility and, critically, access to settlement and trade networks. As such, the US's leverage through SWIFT is nothing new, but rather the 21st century application of how control over network infrastructure can be used to achieve strategic policy goals.

1.1. Background to SWIFT

The Society for Worldwide Interbank Financial Telecommunication (SWIFT) is a global provider of secure financial messaging services. Founded in 1973, SWIFT services over 11,000 banks, financial institutions and corporations across more than 200 countries[6]. Importantly, payments do not flow through SWIFT, only payment instructions do. The actual settlement of funds occurs in separate systems, such as the US Fedwire (US domestic RTGS), CHIPS (the primary private USD cross-border settlement system), or Europe's TARGET2.

Nonetheless, SWIFT forms a core part of the financial services infrastructure, with members exchanging ~440 messages per second, processing an estimated $6 trillion in payments daily[7]. While the National Bank of Belgium is the lead overseer of SWIFT, the

[5] Farrell, Henry, and Abraham L. Newman. 2019. "Weaponized Interdependence: How Global Economic Networks Shape State Coercion." International Security 44 (1): 42–79. https://doi.org/10.1162/isec_a_00351 .
[6] "SWIFT and Sanctions." n.d. SWIFT - the Global Provider of Secure Financial Messaging Services. https://www.swift.com/about-us/legal/compliance-0/swift-and-sanctions
[7] The Society for Worldwide Interbank Financial Telecommunication (SWIFT): Cooperative Governance for Network Innovation, Standards, and Community (London: Routledge, 2014)

dominance in US-related payment instructions reflects the level of control the US exerts over global banking. In 2025, for example, the dollar accounted for 47% of SWIFT payment instructions, followed by the Euro (24%) and the British pound (8%). Excluding payments within the Eurozone, the USD's share of transaction instructions is closer to 57%[8].

1.2 SWIFT and other payment networks as US leverage

Over the years, access to SWIFT's network has become a significant tool of statecraft for Western economies. The ability to disconnect a country's institutions from the network represents a form of powerful economic leverage, with significant consequences for any affected country. Exclusion from SWIFT effectively cuts a bank off from the primary channel for secure international financing messaging. An affected institution can no longer easily send or receive money internationally, thus incapacitating its ability to engage in global trade.

A notable example is Iran, which was banned from SWIFT between 2012 and 2016 over its nuclear program. The country saw its oil real GDP growth fall over -33% in the first year, while its foreign trade also took a hit, since firms struggled to pay for goods, and exporters could not easily receive payments for their products. SWIFT's sanctions were impactful enough to bring Iran back to the negotiating table in 2015, when it agreed to restrain its nuclear program.

Farrell & Newman (2019) argue that despite its formal neutrality, the SWIFT network became a crucial source of information for US financial intelligence, with the US Treasury monitoring SWIFT to investigate illicit activity[9]. Following the September 11, 2001 attacks, SWIFT began providing the US Treasury with access to financial messaging data as part of the Terrorist Finance Tracking Program (TFTP), enabling large-scale financial surveillance to investigate illicit activity[10].

Moreover, SWIFT is just one pillar of US monetary reach. Other rails like Fedwire (the domestic system that regulates the dollar's flow between US banks) and CHIPS (the netting system used by global banks to settle USD cross-border flows) are also chokepoints in the international finance system. Most foreign banks must comply with US sanctions because losing access to USD correspondent banking – or having their USD transactions pass through a US-based clearing house – exposes them to US legal jurisdiction.

The strategic use of financial networks reached a new level of significance in 2022, when the G7 banned ten of Russia's largest financial institutions from SWIFT following its invasion of Ukraine. While sanctions had previously been used against Iran (2012) and North Korea (2017), Russia's deep integration into the global economy made this an unprecedented event. The sweeping US-EU sanctions generated significant debate globally and created a powerful incentive for non-Western powers to accelerate alternative payment rail development and increase the use of crypto-based systems.

1.3 Rise of alternative rails

In response to the use of financial networks like SWIFT for sanctions enforcement, efforts to create non-western "network hubs" have accelerated since the 2010s, as more countries seek to reduce reliance on Western currencies, correspondent banks, and clearing and payment infrastructures.

The most successful alternative to date has been China's CIPS (Cross-Border Interbank Payment System). Launched in 2015, CIPS is a messaging, clearing and settlement system that operates in RMB, not USD. As of December 2024, nearly 1,500 financial institutions

[8] "RMB Tracker Monthly Reporting and Statistics on Renminbi (RMB) Progress towards Becoming an International Currency." 2025. Swift. Swift. December 2025.
[9] Ibid.
[10] Lichtblau, Eric, and James Risen. 2006. "Bank Data Is Sifted by U.S. In Secret to Block Terror." The New York Times, June 23, 2006. https://www.nytimes.com/2006/06/23/washington/23intel.html .

have used CIPS, including ~1,000 outside of mainland China. While CIPS' user base is only 13% of SWIFT's, its growth is strategically significant, with participation having more than doubled since 2018. It now connects over 160 countries, including most BRICS members[11].

Other initiatives include Russia's SPFS (System for Transfer of Financial Messages), launched after the 2014 Crimea sanctions; Iran's SEPAM (System for Electronic Payments Messaging) in 2013; and BRICS Pay, which aims to interconnect domestic payment systems of member countries. The BRICS bloc also has BRICS Bridge, which is exploring DLT-based wholesale currency settlement. Nevertheless, no fully unified BRICS payment system exists – with SPFS and CIPS continuing to be the main contenders to SWIFT. Although these systems remain far smaller than SWIFT, they signal a strategic desire to create redundancy and reduce exposure to Western chokepoints.

1.4 From SWIFT to digital rails: the move towards network competition

As this section has shown, the contest for monetary influence is shifting away from a currency-vs-currency (e.g. dollar-vs-renminbi) dynamic. Instead, competition is shifting toward payment systems and infrastructure platforms, which have become integral components of geopolitical strategy. The impact of financial sanctions has provided a powerful incentive for countries such as Russia and Iran to accelerate experimentation with non-dollar rails such as China's CIPS and Russia's SPFS.

The push to diversify away from SWIFT also helps explain the rise of digital currency infrastructure. SWIFT now faces competition from Bitcoin, stablecoins and central bank digital currencies (CBDCs), which enable near-instant, programmable settlement on blockchain rails. Stablecoins, in particular, are challenging legacy systems (ACH, SEPA, card networks) with 24/7 settlement, low fees, and minimal intermediary risk. And finally, Bitcoin will continue to be a popular alternative among those who are ideologically opposed to centralized financial control, and who perceive the use of sanctions and exclusions from the SWIFT bank routing network as an overreach of state power.

Looking ahead, a new competitive landscape is emerging between networks:

- SWIFT vs. CIPS
- Fedwire/CHIPS vs. e-CNY rails and regional RTGS systems
- Visa/Mastercard vs. platform-based clearing and "super-app" ecosystems
- USDC/USDT vs. domestic tokenized bank money
- CBDC corridors vs. private cross-border payment networks

Out of these alternative payment networks, we believe stablecoins have the greatest potential to reshape the international monetary system. In fact, SWIFT is already working on infrastructure that could support stablecoins. In September 2025, it announced the integration of a blockchain-based ledger to support real-time 24/7 cross-border payments[12]. The new ledger is explicitly designed to be compatible with tokenized assets — such as stablecoins, tokenized deposits, and potentially CBDCs. This shifts SWIFT from a messaging-only network to a hybrid messaging-plus-settlement network, directly encroaching on the functionality of stablecoins.

[11] Chari, Anusha, Nathan Converse, Arnaud Mehl, Gian Milesi-Ferretti, and Isabel Vansteenkiste. n.d. "GEOPOLITICAL TENSIONS and INTERNATIONAL FINANCIAL FRAGMENTATION EVIDENCE and IMPLICATIONS GENEVA REPORTS on the WORLD ECONOMY 28 ICMB INTERNATIONAL CENTER for MONETARY and BANKING STUDIES CIMB CENTRE INTERNATIONAL D'ETUDES MONETAIRES et BANCAIRES." Accessed November 15, 2025. https://cepr.org/system/files/publication-files/271360-geneva_28_geopolitical_tensions_and_international_fragmentation_evidence_and_implications.pdf .

[12] Swift description. 2025. "Swift to Add Blockchain-Based Ledger to Its Infrastructure Stack in Groundbreaking Move to Accelerate and Scale Benefits of Digital Finance across More than 200 Countries and Territories Worldwide | Swift." Swift. September 29, 2025. https://www.swift.com/news-events/press-releases/swift-add-blockchain-based-ledger-its-infrastructure-stack-groundbreaking-move-accelerate-and-scale-benefits-digital-finance .

2. Prelude: Bitcoin and the crypto rebellion – the shift in the international monetary system

To understand how stablecoins emerged as a contender in the new world of international payments infrastructure, it is essential to first understand Bitcoin's role as their catalyst. Bitcoin was not only central to the rise of stablecoins, but it also created the technological and philosophical conditions that made them possible. Its blockchain became the initial rails for the first and most dominant stablecoin, Tether, and its critique of centralized finance (such as SWIFT) framed the political context in which stablecoins developed.

2.1 Origins and ideology

In 2008, the pseudonymous Satoshi Nakamoto published a whitepaper proposing a "peer-to-peer electronic cash system". Designed to operate without intermediaries like banks and governments – institutions whose credibility had been shaken by the 2008 financial crisis – Bitcoin's core motivation was to solve what Nakamoto called the "inherent weakness of trust-based online commerce"[13].

The solution lay in Nakamoto's proposal to create a blockchain, a decentralized and immutable public ledger recording all transactions and secured by a Proof-of-Work (PoW) consensus mechanism where participants ("miners") compete to solve complex computational puzzles to append transactions to the chain. PoW enables parties across the globe to agree on the validity and ordering of transactions without needing to trust one another.

Although earlier attempts at creating digital money existed (e.g. DigiCash in 1989), Bitcoin was the first cryptocurrency to be successfully adopted, arriving at a moment of deep institutional distrust. The ethos of Bitcoin lay in the following: (i) Bitcoin argued that money should be algorithmically constrained, not politically managed; (ii) it reframed money as something individuals choose rather than an unquestioned institutional arrangement; and (iii) it forced governments and central banks to confront the possibility of non-state, code-based money.

2.2 From niche experiment to geopolitical tool

Initially, Bitcoin was confined to cypherpunks, early adopters, and speculative traders. Over time, however, its narrative evolved into a store-of-value proposition, frequently framed as "digital gold" (though evidence remains mixed; gold outperformed by over 65% in 2025 while Bitcoin remained flat). At the margin, Bitcoin became utilized for capital flight from weak-currency economies, and for sanctions evasion and donations to dissidents, NGOs, and conflict zones such as Ukraine[14]. Laboure & Deffrennes (2022) highlight that while Bitcoin met its limits as a medium of exchange across developed economies due to its volatile price moves and higher transaction fees during periods of network congestion, it maintains symbolic power as the first large-scale non-state money in modern times[15]. Yet, with a market cap of $2.5 trillion as of early January 2026 – representing roughly 57% of the total crypto market – it remains too systematically relevant to ignore, at least at the narrative level (even if not at the settlement level).

2.3 Limits of the revolution

Despite the cycles of hype since the 2000s, Bitcoin has not proven to be a primary challenger to the global financial system. Across developed economies, it remains too volatile to serve as a reliable unit of account, and too expensive – due to transaction fees – to serve as a mass-market payments instrument. A series of notable collapses – including

[13] Nakamoto, Satoshi. 2008. "Bitcoin: A Peer-To-Peer Electronic Cash System." *Bitcoin.org*. https://bitcoin.org/bitcoin.pdf .
[14] Feingold, Spencer, and World Economic Forum. 2023. "Why the Role of Crypto Is Huge in the Ukraine War." World Economic Forum. March 16, 2023. https://www.weforum.org/stories/2023/03/the-role-cryptocurrency-crypto-huge-in-ukraine-war-russia/ .
[15] Laboure, Marion, and Nicolas Deffrennes. 2022. Democratizing Finance: The Radical Promise of Fintech. Cambridge, MA: Harvard University Press.

the ~50% price decline in March 2020, the FTX-triggered collapse in 2022, and its most recent correction in Q4 2025 – has reinforced the perception of Bitcoin's instability.

Second, Bitcoin is still significantly associated with illicit activity, accounting for nearly 17% of all illicit crypto transactions. While this share has significantly declined from 72% in 2020[16], Chainalysis notes that most criminal actors continue to prefer Bitcoin over specialized "privacy coins" like Monero and Zcash due to its liquidity, accessibility, and widespread acceptance[17]. Still, cryptocurrency in general remains vulnerable to criminal activity. Privacy coins, in particular, can be attractive for illicit finance due to their anonymity and transaction privacy features.

Beyond criminal use, Bitcoin and other cryptocurrencies have enabled US adversaries to circumvent US sanctions[18]. Demarais (2022) documents cases of Iranian firms using crypto to evade sanctions and Russia's use of Bitcoin in 2016 to finance hackers that then infiltrated US presidential candidate Hillary Clinton's emails. Such examples illustrate how cryptocurrencies can be used by state and non-state actors to operate outside the traditional financial system and counteract US foreign policy objectives, such as sanctions.

Lastly, Bitcoin has become heavily intermediated by centralized exchanges and platforms, a development that contradicts its original decentralisation ethos.

Despite these limitations, corporations and several central banks and governments are now exploring Bitcoin as a treasury asset. The most high-profile case emerged in 2025 with the US administration's plan to establish a Strategic Bitcoin Reserve alongside a broader digital asset stockpile. This Reserve would be funded through seized crypto assets, with a mandate for the Secretary of the Treasury and the Secretary of Commerce to develop "budget-neutral" strategies for acquiring additional official BTC without cost to US taxpayers[19]. The US government currently holds 328,000 BTC (worth $30 billion)[20]. Some proponents have also argued that holding official Bitcoin can provide safe-haven diversification benefits[21]. For example, Senator Cynthia Lummis has said the US administration is considering converting a portion of the country's gold reserves into Bitcoin as part of its plans to reduce national debt by 50% over the next 20 years.

Other countries have also experimented with official adoption. El Salvador became the first country to adopt Bitcoin as legal tender in 2021 and continues to actively purchase Bitcoin for its national treasury. The Central African Republic followed suit and made Bitcoin legal tender in 2022, although it later repealed the adoption in 2023.

2.4 Where Bitcoin ends and stablecoins begin

Ultimately, Bitcoin's inherent volatility prevents it from functioning as a practical unit of account, meaning it has failed to displace sovereign currencies. Instead, Bitcoin's significance is architectural rather than monetary: it opened the door to programmable, non-sovereign money and, in doing so, catalyzed a new era of public–private monetary competition.

While Bitcoin challenged the legitimacy of discretionary central banking, the center of gravity in digital money shifted by the mid-2020s. The real transformation began not with

[16] Chainalysis. 2025. "The 2025 Crypto Crime Report." https://www.chainalysis.com/wp-content/uploads/2025/03/the-2025-crypto-crime-report-release.pdf .
[17] Ibid.
[18] Demarais, Agathe. 2022. *Backfire*. Columbia University Press. Page 142.
[19] The White House. 2025. "Establishment of the Strategic Bitcoin Reserve and United States Digital Asset Stockpile." The White House. March 7, 2025. https://www.whitehouse.gov/presidential-actions/2025/03/establishment-of-the-strategic-bitcoin-reserve-and-united-states-digital-asset-stockpile/ .
[20] "United States." 2020. Bitcointreasuries.net. 2020. https://bitcointreasuries.net/governments/united-states.
[21] We have written about Bitcoin and Gold's shared safe haven characteristics previously. Laboure, Marion, and Camilla Siazon. 2025. "Bitcoin vs. Gold: The Future of Central Bank Reserves by 2030." Deutsche Bank Research. September 22, 2025. https://www.dbresearch.com/PROD/RI-PROD/PDFVIEWER.calias?pdfViewerPdfUrl=PROD0000000000603643 .

Bitcoin's ideology, but with stablecoins' infrastructure, which offered a bridge between crypto markets and the traditional financial system.

3. Stablecoins: Digital Eurodollars and the dollar power extension

Bitcoin was the resistance, but stablecoins have become the system-shaping force: the mechanism by which digital networks began to extend, rather than erode, US monetary power. In this section, we argue that stablecoins are not just new forms of money, but new financial infrastructures that can bypass traditional banking systems. The most fitting historical parallel is the Eurodollar market: stablecoins function as "digital Eurodollars," creating a new form of offshore dollar liquidity that ultimately strengthens, rather than weakens, US monetary power.[22] It is a notable irony that Bitcoin, born from a desire to challenge the US-led liberal order and centralized systems, has inadvertently enabled the US to exert more control through stablecoins.

In this section, we examine how and why stablecoins extend the dollar's reach into digital environments, creating an additional layer of dollar-denominated liquidity outside of traditional banking. We then go on to examine the potential risks that can emerge from rapid USD-backed stablecoin growth, as well as stablecoins' inherent risks.

3.1 From fringe to systemically relevant

Stablecoins emerged in response to the demand for a "money-like" asset that could be recorded on the same database as Bitcoin, but without the volatility that accompanied it. By providing a means to realize capital gains without moving funds off-chain, they offered a critical solution to market participants[23].

While stablecoins can be categorized into four main types – fiat-backed, asset-backed, crypto-backed and algorithmic – the market is overwhelmingly dominated by those pegged to the USD, representing 99% of total market cap. The popularity of dollar-backed stablecoins stems from their utility as a medium of exchange and their aim to maintain a "stable" value by pegging their price to the "safe haven" properties of a portfolio of cash, bank deposits, and short-term securities (mainly US Treasuries), issuing tokens 1:1 against these assets.

Thus, while Bitcoin presents an alternative to fiat currency, stablecoins represent the digital, on-chain representation of fiat currency. Stablecoins offer lower volatility than assets like Bitcoin and Ethereum, whose values fluctuate significantly based on market supply and demand, investor sentiment, and wishful thinking[24]. This fundamental difference helps explain the exponential growth of the global stablecoin market, which soared from $20 billion in 2020 to $312 billion in 2025, representing ~10% of the overall total crypto market. This market is highly concentrated, with USDT accounting for ~60% and USDC for ~23%. Stablecoins enable the 24/7 global circulation of dollars with near-instant settlement, independent of banking hours or correspondent networks. While crypto-to-crypto trading remains their primary use case (88-90%), there is also an emerging use case in business and remittance payments, particularly in economies where traditional systems fall short. Emerging markets, in particular, show stronger uptake for this use case, leveraging stablecoins for inflation hedging and financial inclusion.

[22] The impact of stablecoins on the money supply is still uncertain. While there's growing analysis, experts don't agree on whether stablecoins automatically increase the money supply. This is because the effect depends heavily on where the dollar inflows come from. For more details, you can refer to our FX analysts' paper: Stablecoins, Treasury demand, and the reshuffling of money

[23] Aldasoro, Iñaki, Perry Mehrling, and Daniel Neilson. 2023. "On Par: A Money View of Stablecoins." https://www.bis.org/publ/work1146.pdf .

[24] Laboure, Marion, and Cassidy Ainsworth-Grace. 2021. "The Future of Payments: Series 2 - Part III. Bitcoins: Can the Tinkerbell Effect Become a Self-Fulfilling Prophecy? - Deutsche Bank Research - Deutsche Bank Research." Deutsche Bank Research. March 17, 2021. https://www.dbresearch.com/PROD/RPS_EN-PROD/The_Future_of_Payments%3A_Series_2_-_Part_III__Bitco/RPS_EN_DOC_VIEW.calias?rwnode=PROD0000000000500284&ProdCollection=PROD0000000000517378 .

3.2 How GENIUS unlocks potential for USD dominance

The Guiding and Establishing National Innovation for US Stablecoins (GENIUS) Act in July 2025 was pivotal because it gave the US a first-mover advantage in encouraging USD-stablecoin growth. Under GENIUS, the US has outpaced other countries in establishing a clear regulatory pathway for stablecoin issuers to broaden their reach.

GENIUS legally defined what "permitted stablecoins issuers" were for the first time. Within its definition, it stipulated that issuers could be private non-bank entities, which means that fintech firms, crypto companies and non -financial firms could now directly compete with traditional banks in the digital payments space. GENIUS also requires 1:1 backing with US cash, short-term Treasuries (93 days), repos/reverse repos, or money market funds composed of those assets, and maintains the expectation of full and timely redemption at par. Furthermore, the legislation extends AML/KYC/BSA compliance obligations to stablecoin issuers, mirroring those of traditional banks. Other notable provisions include the prohibition of interest or yield payments by stablecoin issuers, the mandate for issuers to prioritize claims of payment stablecoin holders above all other unsecured creditors if reserves are insufficient, and compliance requirements including monthly public disclosures on holdings and reserves, regular examination by regulators, and robust internal controls.

GENIUS is expected to drive further adoption of USD-stablecoins, especially in emerging markets where citizens use USD stablecoins as de facto dollar accounts to counter high inflation, capital controls, high FX volatility and political instability. A key element of the dollar's dominance has been its use for cross-border payments, which provides the US with "geoeconomic" leverage. IMF estimates show how cross-border flows of stablecoins in 2024 reflected strong dollar demand outside the US: net stablecoin flows largely move outward from North America to the rest of the world[25]. BIS also found that cross-border stablecoin flows increased with VIX volatility and fell with tighter global credit conditions[26].

The Fed expects stablecoin market growth to reach $1 trillion -$3 trillion by 2030[27]. To put this in perspective, the last time the Fed saw such an expansion of its holdings of US Treasury debt was during the COVID-19 pandemic – illustrating the immense potential demand stablecoins could generate. Given that stablecoin issuers are among the top holders of US debt, they can potentially function as essential money-market funds, supporting US short-term debt markets and driving further non-USD liquidity into the dollar.

The political discourse surrounding the GENIUS Act highlights its geopolitical significance for the current US administration. President Trump, for example, stated that the Genius Act would "cement American dominance of global finance and crypto technology[28]." The President also said that GENIUS secures the dollar "as the world's reserve currency," and losing this position would be "like losing a world war[29]."

Special attention must also be given to Tether, which, in the wake of the GENIUS Act, has transformed into a new kind of creditor. A key component of GENIUS stipulated that US persons could no longer purchase stablecoins from foreign issuers without a US license. In response, Tether launched a new, US-based stablecoin compliant with GENIUS regulations in 2025. The crypto firm now holds more than $135 billion in US Treasuries,

[25] International Monetary Fund. 2025. "GLOBAL FINANCIAL STABILITY REPORT: Shifting Ground beneath the Calm." International Monetary Fund, October, 1–126. https://www.imf.org/en//media/files/publications/gfsr/2025/october/english/text.pdf .
[26] Auer, Raphael, Ulf Lewrick, and Jan Paulick. 2025. "BIS Working Papers No 1265 DeFiying Gravity? An Empirical Analysis of Cross-Border Bitcoin, Ether and Stablecoin Flows." https://www.bis.org/publ/work1265.pdf .
[27] "Speech by Governor Miran on Stablecoins and Monetary Policy." 2025. Board of Governors of the Federal Reserve System. 2025. https://www.federalreserve.gov/newsevents/speech/miran20251107a.htm .
[28] "Remarks on Signing the Guiding and Establishing National Innovation for U.S. Stablecoins (GENIUS) Act | the American Presidency Project." 2025. Ucsb.edu. 2025. https://www.presidency.ucsb.edu/documents/remarks-signing-the-guiding-and-establishing-national-innovation-for-us-stablecoins-genius .
[29] Lai, Stephanie, and Jennifer A Dlouhy. 2025. "Trump Signs Stablecoin Bill, Delivering Win for Crypto Industry." Bloomberg.com. Bloomberg. July 18, 2025. https://www.bloomberg.com/news/articles/2025-07-18/trump-signs-stablecoin-bill-delivering-win-for-crypto-industry .

placing it among the world's top holders of US government debt and one of America's largest foreign-like creditors in functional terms. Tether exemplifies a striking paradox for stablecoins: while often framed as tools to bypass banks and traditional rails, under GENIUS, stablecoins in fact embed demand for Treasuries, deepening global reliance on US debt and the dollar as a safe asset. Under the new regulatory framework, the US Treasury and its partners will spend 2026 establishing the specific rules, after which they will begin licensing private stablecoin issuers. The first regulatory development following GENIUS emerged in December 2025, when the US Federal Deposit Insurance Corporation (FDIC) approved depository institutions to establish stablecoin subsidiaries[30].

3.3 Stablecoins as digital Eurodollars

One can think of stablecoins as digital Eurodollars: dollar-denominated liabilities that circulate outside the traditional banking system. Using a historical comparison to Eurodollars helps to contextualize the potential impact of stablecoins on the US dollar system.

Eurodollars are US dollars deposited offshore, outside the US banking system. With a market worth over $10 trillion outstanding, the Eurodollar market represents one of the world's most significant forms of shadow-banking activity. Its origins trace back to the 1960s, amidst Soviet-bloc concerns that the US might freeze their dollar reserves during the height of the Cold War. As countries like the USSR and China needed US dollars for trade, they sought to protect their dollar balances offshore in Paris.

Because these deposits were being held offshore, they were not subject to US domestic banking regulations, such as the Fed's reserve requirements or interest rate ceilings. This made Eurodollars highly attractive due to their higher interest rates, greater flexibility of maturities, and a wider range of investment qualities compared to some other short-term capital markets[31]. According to the St Louis Fed, the Eurodollar market expanded over 252% between 1964 and 1969 alone, rising rapidly from $75 billion (in 2020 dollars) to $264 billion.[32] The dollar-denominated nature of this offshore system also meant that any transaction ultimately needing clearing through the US banking system exposed the participating institutions to US jurisdiction and potential sanctions.

While the Eurodollar market's emergence was unintentional, US policymakers began to actively support it in the 1960s. The dollar's peg to gold at $35 per ounce was under severe pressure as the US balance-of-payments deficit widened from -3.2% of GDP in 1955 to -6.3% in 1960, and then to -9.5% in 1964[33], driven by persistent deficits, military expenditure during the Vietnam War, and rapidly diminishing US trade surplus. For the administration, encouraging foreign central banks to retain USD offshore in Eurodollar deposits – instead of swapping them for gold at the Fed window – was a way of propping up the Bretton Woods system.

US monetary authorities provided implicit backing through swap lines to foreign central banks, which allowed the Fed to provide dollar liquidity to offshore Eurodollar banks when needed. They also implemented a tax to discourage foreign entities from raising long-term loans in US capital markets, which implicitly drove the growth of a complementary Eurodollar bond market outside of the US as a primary alternative funding source. Though operating beyond direct US regulatory reach, the Eurodollar system ultimately

[30] "FDIC Approves Proposal to Establish GENIUS Act Application Procedures for FDIC-Supervised Institutions Seeking to Issue Payment Stablecoins | FDIC.gov." 2025. Fdic.gov. 2025. https://www.fdic.gov/news/press-releases/2025/fdic-approves-proposal-establish-genius-act-application-procedures-fdic.
[31] The development of the Euro-currency market in: Finance & Development Volume 12 Issue 003 (1975)
[32] "Bretton Woods and the Growth of the Eurodollar Market." n.d. Www.stlouisfed.org. https://www.stlouisfed.org/on-the-economy/2022/january/bretton-woods-growth-eurodollar-market .
[33] Eichengreen, Barry. 2000. "Taming Capital Flows." *World Development* 28 (6): 1105–16. https://doi.org/10.1016/s0305-750x(00)00005-x.

strengthened the dollar's global role as reserve currency by increasing its utility and overall demand.

In 2025 and beyond, stablecoins have recreated Eurodollars in token form: they are offshore dollar claims circulating on crypto rails, outside the formal banking system. They function by expanding the "network surface area" of the USD into crypto markets, remittances, e-commerce and DeFi. Hence, the USD is not currently undergoing a period of de-dollarization. Instead, we are witnessing dollarization without banks. We see the Eurodollar's market size of over $10 trillion as a possible "outer perimeter" for potential offshore demand for USD stablecoins[34].

3.4 Potential risks to the international monetary system

While the potential for rapid USD-backed stablecoin growth extends American monetary reach, it also introduces new risks to the international monetary system. These risks span financial stability, monetary policy transmission, and capital flow management.

With growing concerns of sufficient liquid reserves and timely redemption, the first of these risks is a "run" on stablecoins and its potential contagion into core US financial markets. Eichengreen (2025) warned that a potential stablecoin sell-off could trigger a fire sale of US Treasuries, as issuers would be forced to liquidate holdings to meet withdrawal demands[35]. As Eichengreen and Viswanath-Natraj (2021) note, while Treasuries are typically considered highly liquid, they can quickly become illiquid during economic crises, such as the 2008 Great Financial Crisis. Therefore, large-scale and simultaneous redemptions of stablecoins could overwhelm the Treasury market's ability to absorb sales of these assets at stable prices[36]. To borrow from Eichengreen and Viswanath-Natraj's extrapolation of Fed Chair Jay Powell's comments in 2021: "If we're going to have something that looks just like a money-market fund, or a bank deposit, a narrow bank, and it's growing really fast, we really ought to have appropriate regulation – and today we don't.[37]" The same can be said in 2026, with GENIUS regulations leaving this risk unaddressed.

Second, rapid stablecoin growth could drive down short-term yields and reduce the Fed's neutral interest rate. According to the BIS, if stablecoins are in widespread use and fully backed by US securities, they could exert downward pressure on rates by as much as 40 basis points[38]. This structural shift means that the Fed would need to keep policy rates lower or else risk an "unintentionally contractionary" monetary policy stance.

Third, rapid stablecoin growth could also potentially lead to a sudden surge in US monetary supply and cause stablecoins to compete with real dollars. If stablecoin supply outstrips demand, the effects could be inflationary, forcing the Fed to tighten rates if the value of real dollars falls. If extra demand does occur, it will likely come from foreigners reducing demand for their own currencies, heightening financial stability risks in emerging markets. This concern calls to mind another historical parallel from the late 19th century in the US, when the National Banking Acts (1863 & 1864) allowed private banks to issue their own dollars backed 1:1 by Treasury securities. The immediate effects were inflationary, and it was only when interest rates on Treasury debt fell low enough that private bank-note circulation lost profitability and was eliminated under New Deal legislation. Drawing on this parallel, academics like Gorton and Zhang (2021) argue that stablecoins resemble the private bank notes of that era and should not be regarded as an

[34] Sachdeva, Mallika, and George Saravelos. 2025. Review of *What Do Stablecoins Mean for Dollar Dominance?* Deutsche Bank Research. September 10, 2025. https://www.dbresearch.com/PROD/RIPROD/PDFVIEWER.calias?pdfViewerPdfUrl=PROD0000000000602780 .
[35] Eichengreen, Barry. 2025. "Opinion | the Genius Act Will Bring Economic Chaos." *The New York Times*, June 17, 2025. https://www.nytimes.com/2025/06/17/opinion/genius-act-stablecoin-crypto.html .
[36] Eichengreen, Barry, and Ganesh Viswanath-Natraj. 2022. *Stablecoins and Central Bank Digital Currencies: Policy and Regulatory Challenges.* Asian Economic Papers.
[37] C-SPAN. 2021. "Monetary Policy and the Economy." C-SPAN.org. C-SPAN. July 15, 2021. https://www.c-span.org/program/senate-committee/monetary-policy-and-the-economy/595879.
[38] "III. The Next-Generation Monetary and Financial System." 2025. Bis.org. June 24, 2025. https://www.bis.org/publ/arpdf/ar2025e3.htm.

effective medium of exchange, concluding that history will ultimately repeat itself with another world of what they call "wildcat banking.[39]"

Fourth, the inherent promise of financial stability offered by stablecoins is also up for debate. A BIS study found a fundamental tension between a stablecoin's promise of par convertibility (true "stability") and the need for a profitable business model, which often involves taking on liquidity or credit risk[40]. In practice, many stablecoins have historically deviated from their peg. Many of the first stablecoins around 2014 failed due to peg breaks, flawed price-stability mechanisms, or security issues. More recently, the collapse of Terra Luna in May 2022, and Tether's temporary de-peg in 2023 demonstrated that even major stablecoins remain vulnerable to volatility and de-pegging events.

Finally, stablecoins pose risks to capital flow management in emerging market economies, as they allow US dollar liquidity to move outside regulated channels, potentially weakening the effectiveness of capital flow and foreign exchange measures. This also increases the risk of illicit use; in 2024, stablecoins accounted for 63% of total illicit crypto transactions[41].

3.5 Global prisoners' dilemma

The rapid expansion of US-led stablecoin growth poses a global prisoners' dilemma, where countries have no choice but to compete or risk falling behind. We find that Europe is better positioned than China to support local-currency stablecoins, given its higher share of trade invoicing in euros, deeper trust with trade partners, open capital account, and transparent institutions. Under the Markets in Crypto-Assets (MICA) regulation's stablecoin-specific rules (effective as of 2024), Europe is focusing on developing licensing for stablecoin issuers. As of mid-September 2025, 14 entities have issued 23 MiCA-authorized e-money tokens. Major crypto-asset service providers also began delisting non-MiCA compliant stablecoins like Tether in January 2025, leading to shifts towards compliant stablecoins like EUR-backed USDC. The IMF notes that the total market cap of EUR-backed stablecoins grew by 240% between 2024 and 2025, as licensing for stablecoin issuers gained momentum[42].

Despite this progress, European officials remain largely sceptical of stablecoin growth. Key concerns include the potential for stablecoins to draw retail deposits away from traditional banks, the risk of weakening the Eurozone's monetary control, and the systemic threat of a "bank run" on stablecoins leading to fire sales of US treasuries. One of the ECB's ongoing concerns is that the current regulations under MICA do not explicitly regulate the joint issuance of stablecoins by EU and third-country entities, creating vulnerabilities and run risks[43]. Furthermore, some non-compliant stablecoins are still used by EU investors, posing risks to financial stability due to their global influence and potential reserve asset fire sales.

3.6 Stablecoins as a "digital pillar" of dollar dominance

Ultimately, stablecoins help support USD dominance without requiring the banking infrastructure requirements or government control associated with a CBDC. Whether or not the US is able to cement its leadership in dollar-stablecoins will ultimately depend on

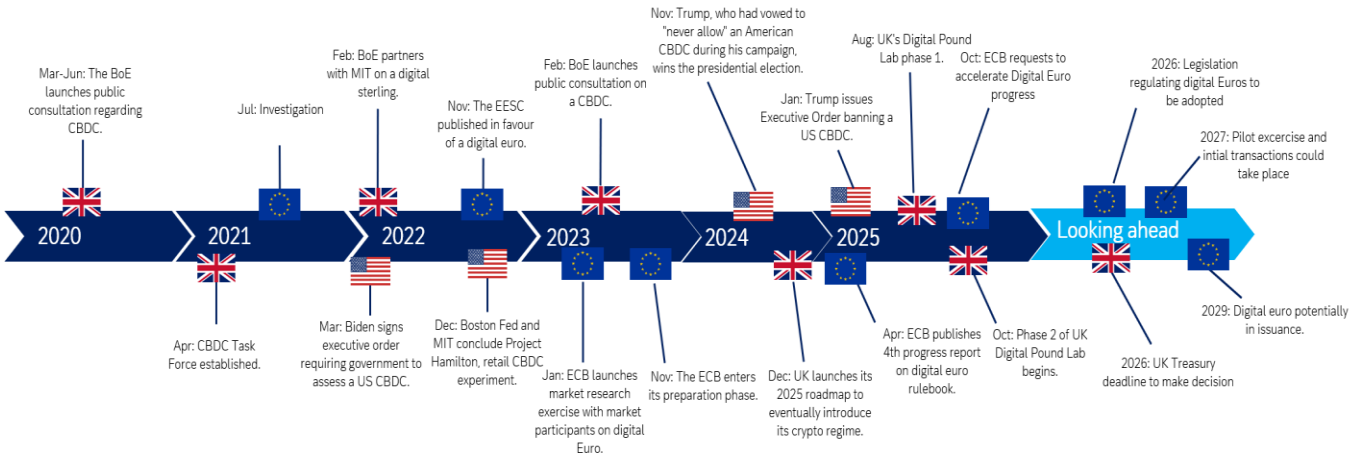
[39] Gorton, Gary B., and Jeffery Y. Zhang. 2021. "Taming Wildcat Stablecoins." *University of Chicago Law Review* (SSRN pre-print, September 30, 2021); subsequently published in 2023.
[40] III. The Next-Generation Monetary and Financial System." 2025. Bis.org. June 24, 2025. https://www.bis.org/publ/arpdf/ar2025e3.htm .
[41] International Monetary Fund. 2025. "GLOBAL FINANCIAL STABILITY REPORT: Shifting Ground beneath the Calm." International Monetary Fund, October, 1–126. And Chainalysis. 2025. "The 2025 Crypto Crime Report." https://www.chainalysis.com/wp-content/uploads/2025/03/the-2025-crypto-crime-report-release.pdf.https://www.imf.org/en//media/files/publications/gfsr/2025/october/english/text.pdf .
[42] "Crypto Assets Monitor, October 2025 Edition." 2025. The International Monetary Fund. October 2025. https://www.imfconnect.org/content/dam/imf/News%20and%20Generic%20Content/GMM/Special%20Features/GMM%20Special%20Feature%20-%20Crypto%20Monitor%20October%202025.pdf .
[43] "Crypto-Assets and Decentralised Finance Report on Stablecoins, Crypto-Investment Products and Multi- Function Groups." 2025. https://www.esrb.europa.eu/pub/pdf/reports/esrb.report202510_cryptoassets.en.pdf?347510c016928b8c2f74825965cd20a9 .

the adoption of USD-stablecoins in cross-border payments, specifically in B2B transactions and remittances. Outside of these use cases, retail adoption remains marginal. Our dbDIG proprietary survey data shows that only 12% of respondents in the US use crypto due to the perceived high risks, volatile price swings and a general lack of public understanding[44].

Still, as we have demonstrated, stablecoins have the potential to constitute a legitimate "currency pillar" that helps strengthen the exorbitant privilege of the US dollar. They are dollar-denominated, backed by US Treasuries, and serve to deepen global reliance on US liquidity and financial rails. The result is that the dollar is no longer only a currency but is becoming a protocol – an embedded standard for value representation and settlement across digital platforms that represents a new layer of the USD-dominated international monetary system.

4. CBDCs: The sovereign response

Figure 2: Timeline of CBDC development across selected developed economies



Source: Deutsche Bank Research

The rapidly shifting channels of power across new payment systems and alternative network rails, as outlined in the preceding sections, brings us to the final theme of this chapter: the state's response. As crypto and stablecoins gain influence, central banks are accelerating efforts to create their own digital currencies, known as central bank digital currencies (CBDC).

The IMF defines CBDCs as "digital versions of cash" that are secure and inherently stable, unlike crypto-assets, because they are issued and regulated by central banks[45]. There are two broad types. The first is wholesale CBDCs, which are used by financial institutions such as banks and central banks. They aim to make digital interbank settlements safer and more efficient, and progress is strongest here, driven by tokenization and cross-border pilot uses[46]. The second category is retail CBDCs, intended for households, firms and consumers in daily transactions[47]. Adoption remains low in the countries that have launched them, such as Nigeria, Jamaica and the Bahamas, while others (including the US, Canada, Australia, and Thailand) have paused development.

[44] Laboure, Marion, and Camilla Siazon. "Crypto adoption: what consumers told us in 2025." Deutsche Bank Research Institute, January 2026."
[45] Stanley, Andrew. 2022. "The Ascent of CBDCs." International Monetary Fund. F&D Magazine. September 2022. https://www.imf.org/en/publications/fandd/issues/2022/09/picture-this-the-ascent-of-cbdcs .
[46] Mancini-Griffoli, Tommaso. 2025. "CBDC: Further Navigating Challenges and Opportunities." The International Monetary Fund. November 21, 2025. https://www.imf.org/-/media/files/oap/oap-home/2025/tokyo-2025-session-1-cbdc-handbook-tommaso-v2.pdf .
[47] Laboure, Marion, and Cassidy Ainsworth-Grace. 2024. Review of Money Monday: Part 3: Central Bank Digital Currencies: A "Wait and See" Approach. Deutsche Bank Research. April 22, 2024. https://research.db.com/research/Article?rid=f0173b14-7112-45cf-b0b3-bdac43ad4bb6-604&kid=RP0001&documentType=R&wt_cc1=IND-3040823-0000 .

CBDCs are often misunderstood as mere substitutes for cash. However, their deeper purpose is infrastructure alignment—ensuring that public money remains native to the rails on which economic activity increasingly takes place. They are not new currencies, but new mechanisms for distributing and enforcing monetary authority.

4.1 Origins and motivations

Although CBDC momentum accelerated in the late 2010s in response to Facebook's Libra proposal, the rise of cryptocurrencies, and intensifying US-China rivalry, their origins actually date back to 1992, when the Bank of Finland launched the Avant smart card, an early electronic form of cash[48]. In 2026, over 130 central banks are developing or piloting CBDCs – representing the largest redesign of monetary architecture in decades.

The primary motivations for CBDC exploration are:

- To respond to the declining use of cash (a trend accelerated by Covid).
- To preserve monetary sovereignty as private digital monies – namely cryptocurrency and stablecoins – become more mainstream[49].
- To improve payment efficiency by reducing the costs of issuing and operating physical currency (0.5 -1.0% of GDP per IMF estimates) and lowering monopoly rents earned by commercial banks. Michael Bordo calls this the 21st century version of Adam Smith's "social saving" of fiduciary money[50].
- To enhance surveillance and control (AML/CFT, capital flows).
- To expand financial inclusion for populations without access to bank accounts – a goal particularly relevant for emerging markets modernizing their monetary transmission mechanisms.

Although emerging markets lead CBDC deployment (China was an early mover whose R&D began in 2014, leading to the e-CNY launch in 2020) the 2025 US GENIUS Act have pushed advanced economies to speed up their own efforts. This acceleration reflects fears that stablecoins directly challenge central bank sovereignty because their rapid growth could shift substantial parts of the money supply outside the control of central banks and the traditional banking system. In addition, with money circulating on private platforms, states risk losing visibility over payments, compliance, and credit transmission.

Arner, Auer and Frost point out two specific channels through which this can occur: (i) If consumers move deposits from commercial banks to stablecoins, bank lending could become more expensive; and (ii) stablecoin reserve requirements could generate large inflows onto central bank balance sheets, distorting monetary transmission[51].

4.2 Case studies: the US, Europe, and China

The US is the only major central bank opposing CBDC development. In January 2025, President Trump issued an executive order banning CBDC in the US[52], citing fears that it could lead to "government tyranny". However, given US dominance in global card payment networks like Visa and Mastercard, this position may also be strategically motivated. Still, ambiguity remains: Trump's Executive Order did not clarify whether the Fed should exit

[48] Stanley, Andrew. 2022. "The Ascent of CBDCs." International Monetary Fund. F&D Magazine. September 2022. https://www.imf.org/en/publications/fandd/issues/2022/09/picture-this-the-ascent-of-cbdcs .

[49] We define monetary sovereignty as "the ability of a state to issue and regulate its own currency" and "to use its monetary governance tools to achieve its economic objectives." Helleiner, Eric. 2003. *The Making of National Money Territorial Currencies in Historical Perspective*. Cornell University Press.

[50] "Central Bank Digital Currency in an Historical Perspective." n.d. CEPR. https://cepr.org/voxeu/columns/central-bank-digital-currency-historical-perspective .

[51] Arner, Douglas, Raphael Auer, and Jon Frost. 2020. "Stablecoins: Risks, Potential and Regulation." https://www.bis.org/publ/work905.pdf. Prasad, Eswar S. 2021. The Future of Money: How the Digital Revolution Is Transforming Currencies and Finance. Cambridge, MA: Harvard University Press.

[52] The White House. 2025. "Strengthening American Leadership in Digital Financial Technology – the White House." The White House. January 23, 2025. https://www.whitehouse.gov/presidential-actions/2025/01/strengthening-american-leadership-in-digital-financial-technology/ .

Project Agora, the BIS-led cross-border wholesale CBDC initiative, and Fed Governor Waller subsequently confirmed that participation was still ongoing[53].

In contrast, the ECB has accelerated its digital euro efforts, concerned that the proliferation of USD-stablecoins could threaten the euro area's monetary sovereignty[54]. The bloc aims to establish a regulatory framework in 2026, launch a digital euro pilot in 2027, and potentially issue the currency by 2029[55].

European officials have long been wary of US financial influence, even prior to the GENIUS Act. Banque de France has highlighted Europe's deep reliance on US card infrastructure, noting that Visa and Mastercard combined accounted for 66% of card payments within Europe in 2024[56]. If either were to exit the market, 15 of the 20 euro-area countries would lose card-payment capability[57]. The euro area currently lacks a fully interoperable native payments solution. Limited progress has been made with initiatives like Wero (instant transfers, but limited to only a few countries), and EuroPA (under development in Italy, Portugal and Spain), but an independent, pan-European digital payment solution remains elusive, despite the EU's single-market ambition.[58]

The ECB is thus pursuing a two-part strategy for retail and wholesale CBDCs, though coordination issues persist. For example, in October 2025, France's National Assembly moved to block the digital euro over privacy and bank stability concerns,[59] and several banks have argued that it may undermine private-sector payment systems without adding user value.[60]

The country outpacing the rest of the world in CBDC development is China. Once a major crypto hub, China has restricted cryptocurrencies since 2013 to "protect the status of the RMB as the statutory currency, prevent risks of money laundering and protect financial stability."[61] These restrictions culminated in a 2021 ban on all crypto transactions, blocking access to foreign platforms[62]. Instead, Beijing seeks to promote its e-CNY to remain competitive in the emerging landscape of digital assets, counter USD economic influence via SWIFT/CHIPS, and strengthen RMB internationalization through the digital yuan. Beijing had already been utilizing other monetary tools to combat the dollar's influence; for example, the PBoC maintains 60 currency swap agreements worth nearly $500 billion, far more than the Fed in both value and number[63]. As Demarais argues, China's short-term goal is to escape US financial monitoring, while its long-term goal is to evade the threat of US sanctions and reduce the centrality of the US dollar in the international system.

Domestically, e-CNY adoption rates are strong. Digital yuan transactions have reached 7 trillion yuan ($986 billion USD) as of July 2024, with pilots in 17 regions across sectors spanning retail, healthcare and tourism[64]. The Atlantic Council's CBDC tracker notes that

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[53] Ledger Insights. 2025. "Waller: US Federal Reserve Is Exploring Tokenized Reserves. Criticizes Digital Euro - Ledger Insights - Blockchain for Enterprise." Ledger Insights - Blockchain for Enterprise. February 7, 2025. https://www.ledgerinsights.com/waller-us-federal-reserve-is-exploring-tokenized-reserves-criticizes-digital-euro/ .

[54] Schaaf, Jürgen. 2025. "From Hype to Hazard: What Stablecoins Mean for Europe." European Central Bank. July 28, 2025. https://www.ecb.europa.eu/press/blog/date/2025/html/ecb.blog20250728~e6cb3cf8b5.en.html .

[55] Bank, European Central. 2025. "Progress on the Preparation Phase of a Digital Euro - Closing Progress Report." European Central Bank, October. https://doi.org/10.2866/6934742 .

[56] "Central Bank Digital Currency: The Sovereignty Challenge | Banque de France." 2021. Banque de France. 2021. https://www.banque-france.fr/en/governors-interventions/central-bank-digital-currency-sovereignty-challenge .

[57] Ibid.

[58] Ibid.

[59] "France Stuns Europe: Could Lawmakers Adopt Bitcoin and Ban Digital Euro?" 2025. TradingView. October 28, 2025. https://www.tradingview.com/news/cryptonews:506cd2d31094b:0-france-stuns-europe-could-lawmakers-adopt-bitcoin-and-ban-digital-euro/ .

[60] Grant, Wesley. 2025. "EU Institutions Challenge the Merits of the Digital Euro." Payments Journal. November 5, 2025. https://www.paymentsjournal.com/eu-institutions-challenge-the-merits-of-the-digital-euro/ .

[61] PBOC, MIIT, CBRC, CSRC, & CIRC. (2013, December 5). Guanyu Fangfan Bitebi Fengxian de Tongzhi (关于防范比特币风险的通知) [Notice on Precautions Against the Risks of Bitcoins]. The Central People's Government of the People's Republic of China. http://www.gov.cn/gzdt/2013-12/05/content_2542751.htm

[62] Huang, Ying, and Maximilian Mayer. 2022. "Digital Currencies, Monetary Sovereignty, and U.S.–China Power Competition." *Policy & Internet* 14 (2). https://doi.org/10.1002/poi3.302 .

[63] Demarais, Agathe. 2022. *Backfire*. Columbia University Press. Page 128.

[64] Atlantic Council. 2025. "CBDC Tracker." Atlantic Council. February 2025. https://www.atlanticcouncil.org/cbdctracker/.

e-CNY use is expanding to include high-value corporate and cross-border transactions. In September 2025, the PBoC launched an e-CNY operations centre in Shanghai as part of its latest push to globalize the digital yuan. The centre will oversee cross-border payment systems and blockchain infrastructure development, plus support trade, investment and innovation in digital finance[65].

Despite this expansion, the e-CNY has not achieved widespread adoption compared to incumbent payment methods. According to the Atlantic Council, a 2025 study found that over 30% of respondents encountered problems with the e-CNY app[66]. Another study found that around 80% of surveyed individuals in 2024 who were not using the digital yuan were aware of it but did not perceive a need for it[67].

4.3 Challenges to CBDC adoption

Ultimately, CBDCs represent a state response to shifting payment systems. They enable governments to maintain control of payment rails and settlement standards, preserve monetary and regulatory oversight as transactions move onto new platforms, and coordinate more tightly with banking systems and fintech ecosystems. They also serve as a test for whether new forms of digital money will undermine or extend the existing monetary order.

However, compared with stablecoins and cryptocurrencies, one would argue that momentum for mass adoption is varied and not as rapid, with public apathy posing the biggest obstacle in advanced economies. The IMF has identified other adoption hurdles, including low awareness, a preference for existing payment methods, privacy concerns, weak incentives for intermediaries, and the classic "chicken-and-egg" problem where consumers and merchants wait for one another to adopt.[68] Additional concerns include the lack of a compelling use case relative to existing digital payment systems, fears of increased state surveillance, and a broader distrust of central institutions.

Figure 3: Summary of CBDC rationales

Region	Primary goal	Strategic logic
China (e-CNY)	Replace cash and enhance payment efficiency and financial inclusion, protect monetary sovereignty	Build parallel payments infrastructure
Eurozone (Digital Euro)	Preserve payments sovereignty	Prevent private stablecoin dominance
Emerging Markets	Control capital flows + financial inclusion	Modernize monetary transmission
United States	Maintain global dollar reach	Extend public money into digital networks

Source: Deutsche Bank Research; official central bank primary objectives referenced in footnotes.[69]

5. Scenarios for the monetary system (2026–2035)

As this chapter has shown, the international monetary system is undergoing a structural transition—not a shift in which currency dominates, but a shift in the architecture through which money is issued, moved, verified, and governed. We argue that money is no longer

[65] Wong, Foster. 2025. "China Opens Digital Yuan Hub in Shanghai to Boost Global Use." Bloomberg.com. Bloomberg. September 25, 2025. https://www.bloomberg.com/news/articles/2025-09-25/china-opens-digital-yuan-hub-in-shanghai-to-boost-global-use .
[66] Atlantic Council. 2025. "CBDC Tracker." Atlantic Council. February 2025. https://www.atlanticcouncil.org/cbdctracker/ .
[67] Chen, Baomin, Zhenzhong Ma, Mengyao Dang, Zecheng Wu, Linyu Cui, and Siwen Yu. 2025. "Antecedents of E-CNY Adoption in China: A Cluster Analysis-Based UTAUT Model." The Chinese Economy 58 (6): 440–57. doi:10.1080/10971475.2025.2540676.
[68] International Monetary Fund. Monetary and Capital Markets Department. "Central Bank Digital Currency: Progress And Further Considerations", *Policy Papers* 2024, 052 (2024), Article A001, A001, accessed Dec 17, 2025, https://doi.org/10.5089/9798400293252.007.A001
[69] For the EU, see: Bank, European Central. 2025. "The Digital Euro: Legal Tender in the Digital Age." European Central Bank. July 14, 2025. https://www.ecb.europa.eu/press/key/date/2025/html/ecb.sp250714~437cfc6a51.en.html. For the US, see The White House. 2025. "Strengthening American Leadership in Digital Financial Technology – the White House." The White House. January 23, 2025. https://www.whitehouse.gov/presidential-actions/2025/01/strengthening-american-leadership-in-digital-financial-technology/ . For China, see a report written by the PboC's deputy governor: Yifei, Fan. n.d. "Analysis of the Policy Implications of the Positioning of E-CNY as M0." Accessed December 19, 2025. https://www.pbc.gov.cn/en/3935690/3935759/20250808175130210 48/20221101101202423 32.pdf .

just a unit of account, a medium of exchange, or a store of value. Instead, money has become a layered technology system—linking liquidity, identity, messaging, computation, and settlement—where power derives increasingly from control over nodes and rails, not merely units of account.

We visualize this concept as a stack: at the base lie central bank money and Treasuries; above that are commercial banks, capital markets, and payment networks; and at the top are crypto, stablecoins, wallets, and CBDCs. Control over this stack—who issues, who clears, who settles, who sees—has become a central dimension of geopolitical power.

With this framework in mind, we outline four possible scenarios for the evolution of the international monetary system, visualized along two axes: the balance between state vs. private control, and whether monetary networks converge or fragment. Out of these four scenarios, we see the most plausible outcome being a dual system, where the dollar remains the core global reserve and settlement asset. Moreover, the dollar's power will be increasingly extended through digital issuance (stablecoins, tokenised deposits, possibly wholesale CBDC). Meanwhile, CBDCs will form regional clearing blocs, providing states with digital sovereignty tools. In this environment, corporates and platforms will increasingly manage interoperability across systems, acting as bridges between these distinct networks.

Figure 4: Four possible scenarios for the new international monetary system (2026 – 2035)

	Converging networks	Fragmenting networks
State-controlled	Networked dollar dominance ●●●●	Bloc-based systems ●●●○
	- Stablecoins normalize as settlement layer - Tokenised deposits expand - USD becomes an embedded protocol across digital platforms	- The US and China consolidate partially parallel settlement worlds, with regional CBDC corridors linking "friendly" economies - Trade within blocs increasingly uses local or bloc currencies, while the dollar remains central for cross-bloc and financial transactions
Private-controlled	Full decentralisation ●○○○	Platform money fragmentation ●●○○
	- Bitcoin as collateral or strategic reserve asset - State money coexisting with private-sector issuance	- Big tech and private stablecoin issuers become quasi monetary authorities, issuing widely used tokens and running proprietary payment networks - Regulators struggle to keep up, leading to patchwork oversight and occasional systemic scares

Source: Deutsche Bank Research. Note: Dots indicate relative likelihood over the 2026–2035 horizon.

6. Conclusion: Money becomes infrastructure

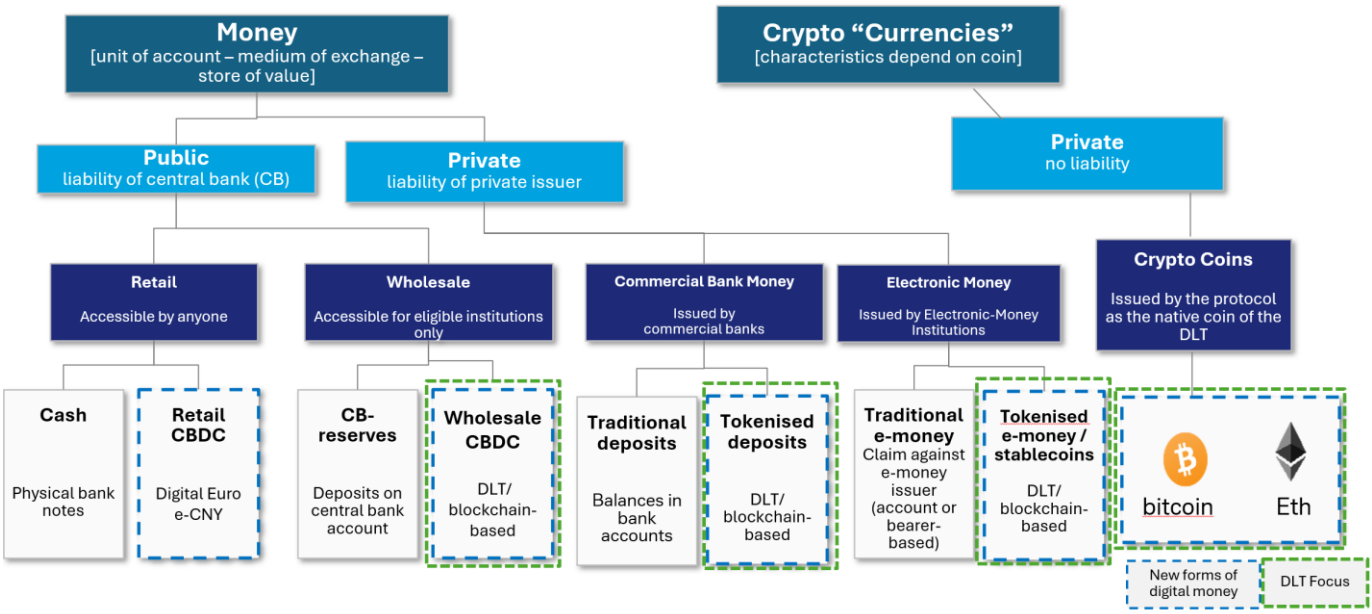
The digital monetary transition is not a story of collapse or outright replacement. It is a story of translation and re-encoding. As this chapter has argued, the center of gravity for money is shifting from banks and balance sheets toward platforms and programmable ledgers. The result is a new landscape where the competition for monetary influence has moved from a contest between national systems to one between globally networked architectures.

In this transition, we argue that the US dollar is not fading. It is becoming embedded—inside code, platforms, wallets, stablecoins, and clearing layers. Consequently, the future of monetary power is not defined by what currency households and firms hold in their accounts, but by which networks they cannot avoid using to move value.

The future of monetary power thus lies in settlement protocols, liquidity access, network adoption, and the trust and governance of digital infrastructures. The question is no longer simply, "Which currency will dominate?", but rather, "Who will control the rails through which global value flows?"

In the broader context of our "Great Power Rebalancing" series, digital money recodes existing hierarchies rather than sweeping them away. The geography of power is shifting from banks and territorial states to networks and platforms, but the underlying currency hierarchy—anchored by the dollar—is changing more slowly.

Figure 5: Money as a layered technology system stack



Source: Deutsche Bank Research

Appendix 1

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