Stablecoins and Sovereign Bond Markets

ECB Bond Market Contact Group

Antonio Cavarero
September 25th, 2025

Your Partner for Progress.

Fiat-Backed Stablecoins: Definition and Market Overview

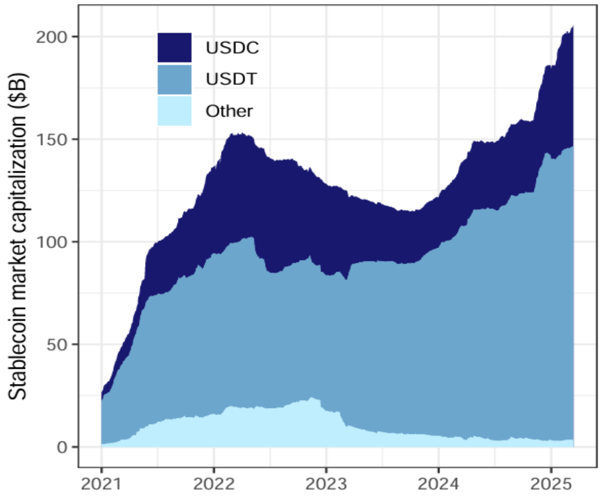
- **Stablecoins**
  Fiat-backed stablecoins are pegged to a currency, currently *de facto* only USD. They are based on blockchain protocols that guarantees secure, transparent and decentralized transactions.

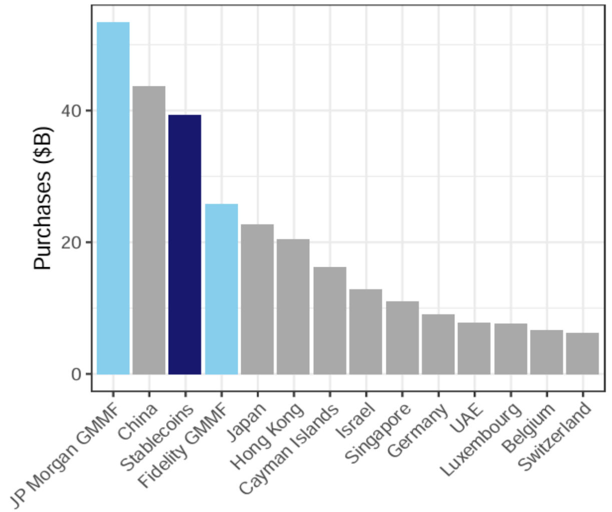
- **Market size**
  - ~270 bn USD total capitalization by end 2025.
  - ~2 tn USD turnover in 2024, mainly in North America and Asia Pacific (IMF estimate).
  - Wide range of capitalization forecasts, from 750 bn to 4 tn USD. TBAC* sees ~2 tn USD in 2028
    As a comparison, US debt is ~ 37 tn USD, S&P market cap is ~ 55 tn USD, Bitcoin is ~ 2.3 tn USD.

- **Main players**
  - Tether (USDT) ~160bn USD.
  - Circle (USDC) ~70bn USD.

- **Other initiatives**
  PayPal USD (~ 1.3 bn USD), EURC (~200 mn EUR).
  Several traditional payment platforms and banks have launched their own or integrated them in their activity.

- **Reserves allocation (USDT, Q2 2025)**
  - US T-Bills: ~ 105 bn USD.
  - Other ST instruments & cash equivalent: ~ 25 bn USD.
  - Gold: ~ 9 bn USD.
  - Bitcoin: ~ 9 bn USD.
  - Secured loans & others: ~ 15 bn USD.





US T−bill purchases in 2024

* Treasury Borrowing Advisory Committee, advisory committee governed by federal statute and formed by senior representatives of   buy and sell side institutions.

Source: BIS, market cap data as of Q1 2025

The GENIUS Act

- **GENIUS Act**
  The *Guiding and Establishing National Innovation for U.S. Stablecoins Act*, approved in July 2025, **creates a comprehensive regulatory framework for stablecoins.**

- **Key features**
  - Imposes **full 1:1 reserve** backing with cash and short dated Treasuries (<93 days maturity).
  - Requires monthly **certified disclosure** of reserves, **prohibits interest payments** to holders.
  - Issuers must be under **supervision** by US federal and state regulators.

- **Consequences**
  - Expected **increased usage** of digital currency, with wider adoption by both domestic and foreign investors.
  - Expected **issuance increase.** Tether will launch **USAT**, as USDT is issued under foreign legislation, banks and other companies (Amazon, Walmart, etc.) will launch their own.
  - The **issuers cannot pay interests, but workaround could be possible** by transferring the stablecoins to different platforms that will lend them (with all the associated risks) to interest-bearing activities, like:
    - crypto trading strategies,
    - collateral pools,
    - Real World Assets (RWA) strategies, that invest in tokenized tangible assets (e.g. commodities, real estate, etc.) or tokenized financial instruments (e.g., MMF, private asset funds, etc.).

Applications of Stablecoins

- **Main applications**

  - **Cheaper and immediate payment transactions, available 24/7**.
    Transaction costs, much lower that traditional money wire, and transparent and fast settlement make stablecoins very appealing for corporate money transactions (e.g., international treasury activities, frequent small payment flows to a variety of recipients, etc.).
  - **Programmable currency.**
    Complex payment frameworks can be automatized and optimized, like collateral management, pay-as-you-go services, conditional payments.
  - **Alternative access to banking.**
    In lack of reliable banking infrastructure, stablecoins can provide the ecosystem for a wide set of financial services (deposits, money transfer, but also loans and investments).
  - **Investments in digital assets.**
    Easier access to crypto/tokenized investments.

- **Points of attention and risks**

  - Issuer and custodian **stability/reliability**, particularly in lack of proper regulatory oversight and in case of **massive redemptions** leading to **de-pegging.**
  - **Fungibility** across different jurisdictions, as the same (hence fungible) stablecoin is issued under different regulatory frameworks. This could lead to misaligned treatment of holders with, for instance, possible uneven access to the reserves (e.g., USDC issued under US and EU legislation).
  - **KYC/AML/ATF**.

Effects on U.S. Treasury Market

Effects on government bonds markets

- The increase in stablecoin adoption will lead to **more HQLA purchases**, **compressing front-end yields, potentially even beyond desirable policy levels**. As a reference, USD T-Bills outstanding up to 3m maturity: ~ 5 tn USD, average 3m T-Bills gross quarterly issuance: ~ 1 tn..

- A **bias in the funding policy toward short tenors** would imply a wide set of consequences (shorter debt duration, lower liquidity of longer tenors, etc.).

- The **impact of inflows will depend, among other things, by their origin**:
  - Switching **from MMF** should not cause a significant change.
  - Stablecoin purchases funded **by bank deposits** will affect banks' liquidity profiles, possibly reducing their allocation to government bonds and loans.
  - Purchases **from foreign investors** (e.g., emerging economies) will add new inflows in the underlying bond market.

- In an article by the Kansas City FED about stablecoins (August 2025), it is stated that **1 USD less in bank deposits translates into 20 cents less Treasury holdings and 50 cents loans reduction**.

- A 2025 study by BIS shows that a 3.5 bn USD / 2 standard deviation inflow into stablecoin **compresses 3 months yield** by ~2–2.5 bps within 10 days, up to 5 bps within 20 days, limited effects on longer tenors. On the other hand, **outflows raise yields more strongly** (2–3x the impact).

Volatility in the stablecoin space

- The case of the **collapse of a stablecoin actor** is, of course, the greatest risk in the background, whose disruptive effects are difficult to model in detail.

- In 2024, the FRBNY analyzed the USDC de-pegging that followed the SVB collapse. In that occasion, **USDT was seen as a more reliable recipient for digital assets**, trading at premium vs USD and increasing its assets in the period after the event. This could happen again in case of new episodes of crypto-volatility.

Final Comments

- Stablecoins are the **“digital evolution” of traditional money** and, as such, able to influence behaviors and market structure.
- With the support of the GENIUS Act, stablecoins can be **the tool that narrows the gap** between fiat money & traditional investments on one side and cryptos & digital assets on the other.
- The US administration is intervening on a still small asset class, but **the recent legislation puts it on an important potential growth trajectory**, with effects that can easily go beyond US market boundaries. The Act was approved with a widely bipartisan vote (68-30 at the Senate, 308-122 at the House), a proof of the alignment behind this initiative and a symptom of its potential future expansion.
- The US Congress is currently working on the “Digital Asset Market **Clarity Act**” that aims to provide **a clear and coordinated regulatory framework for digital and crypto assets** in the US. Even if stablecoins are out of its scope, the approval would offer legal references and certainties able to support further the usage of digital assets, with positive effects also on stablecoins.
- Currently, their usage is mainly linked to crypto trading, but there is a **clear push to extend it into retail transactions**. If this happens, their market capitalization will increase and **stablecoins will become a more important player on the very front end of the yield curve.**
- A wider adoption of US stablecoins outside the US will support **USD dominance** and provide **additional funding** to the debt.

*“In fact, I believe that stablecoins have the potential to maintain and extend the role of the dollar internationally. **Stablecoins also have the potential to improve retail and cross-border payments**.” “[The GENIUS Act] was an important step for the payment stablecoin market and could help stablecoins reach their full potential.” (C. Waller, member of FED Board of Governors, 20/8/2025)*

Discussion points

- What is the **awareness** among market participants about stablecoins, including their regulation, the effects on policies and behaviors?
- How conscious are market participants about the **intersections between tokenized and traditional** financial markets?
- Does **fragmentation of regulatory frameworks** create spillovers from a market perspective?
- How **“private” stablecoins will relate with “public” CBDCs**? Coexistence or competition?
- What could be the **role of stablecoins in case of stress in the “traditional” financial space**?

Important Information

This document is related to the entities listed below and is not a marketing communication related to a fund, an investment product or investment services in your country. This document is not intended to provide investment, tax, accounting, professional or legal advice. Generali Investments Luxembourg S.A. is.a public limited liability company (société anonyme) under Luxembourg law, authorised as UCITS Management Company and Alternative Investment Fund Manager (AIFM) in Luxembourg, regulated by the Commission de Surveillance du Secteur Financier (CSSF) - CSSF code: S00000988 LEI: 222100FSOH054LBKJL62. Generali Asset Management S.p.A. Società di gestione del risparmio is an Italian asset management company regulated by Bank of Italy and appointed to act as marketing promoter of the Fund in the EU/EEA countries where the Fund is registered for distribution - Via Niccolò Machiavelli 4, Trieste, 34132, Italia - C.M. n. 15376 - LEI: 549300DDG9IDTO0X8E20. Any opinions or forecasts provided are as of the date specified, may change without notice, do not predict future results and do not constitute a recommendation or offer of any investment product or investment services. This document is only intended for professional investors in Italy. This document is not intended for retail investors or US Persons, as defined under Regulation S of the United States Securities Act of 1933, as amended. The information is provided by Generali Asset Management S.p.A (the “Issuer”). All data used in this document, unless otherwise indicated, are provided by the Issuer. This material and his contents may not be reproduced or distributed, in whole or in part, without express consent written by the Issuer.

This document is based on information and opinions which Generali Asset Management S.p.A. Società di gestione del risparmio has obtained from sources within and outside of the Generali Group. While such information is believed to be reliable for the purposes used herein, no representation or warranty, expressed or implied, is made that such information or opinions are accurate or complete. The information, opinions es-timates and forecasts expressed in this document are as of the date of this publication and represent only the judgment of Generali Asset Management S.p.A. Società di gestione del risparmio and may be subject to any change without notification. It shall not be considered as an explicit or implicit recommendation of investment strategy or as investment advice. Before subscribing an offer of investment services, each potential client shall be given every document provided by the regulations in force from time to time, documents to be carefully read by the client before making any investment choice. Generali Asset Management S.p.A. Società di gestione del risparmio may have taken or, and may in the future take, investment decisions for the portfolios it manages which are contrary to the views expressed herein. Generali Asset Management S.p. A. Società di gestione del risparmio relieves itself from any responsibility concerning mistakes or omissions and shall not be considered responsible in case of possible damages or losses related to the improper use of the information herein provided. It is recommended to look over the regulation, available on our website www.generali-am.com. Generali Asset Management S.p. A. Società di gestione del risparmio is part of the Generali Group which was established in 1831 in Trieste as Assicurazioni Generali Austro Italiche.

GENERALI
ASSET MANAGEMENT

Your Partner for Progress.