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# The GENIUS Act and the US Cryptomercantilism: Which Challenges for Europe and the Euro?

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The rise of digital money presents **opportunities and challenges**. The European Union (EU) and the US have taken starkly different approaches in regulating new forms of money issued using the distributed ledger technology. Under the Trump administration, the US rejects central bank digital currencies (CBDC), in favour of **privately issued 'stablecoins'**. Stablecoins aim to be convertible into cash equivalents at par and are backed by low-risk assets to meet redemptions and secure its value. By promoting the global use of dollar-backed stablecoins, the US seeks to reinforce dollar dominance worldwide. It is meant to reinforce more international use of the dollar for payment and invoicing. Since USD stablecoins are mainly backed by



US debt, they also create new demand for USD debt of public and potentially even private issuers.

In a recent [paper](#), we present this strategy and assess its risks for the EU. Analysing the Markets in Crypto-Assets Regulation (MiCAR) provisions, we show that the EU is fairly protected against the risks generated by foreign issuers of stablecoins, perhaps at the expense of innovation in the crypto-industry. But third countries with low levels of financial inclusion and unstable currencies face severe risks. The EU should respond by leading efforts to build interoperable CBDCs and payment systems, premised on mutual respect for monetary sovereignty.

We explore three risks of the dominance of dollar-pegged stablecoins. First, stablecoins could increase financial stability risks either through redemption risk if the assets backing stablecoin are not properly regulated, or by increasing the risk of bank runs if stablecoins suddenly attract bank deposits. Second, dollar-pegged stablecoins can potentially lead to a digital dollarisation of the euro-area if they are widely adopted, at the expense of euro-denominated payments. This would create exchange rate risks for European households and companies and strongly constrain European monetary policy. Third, if dollar-pegged stablecoins circulate widely, this could hinder monetary sovereignty in third countries (economic trade partners to the EU) and conflict with the recently restated objective of a greater [international role for the euro](#).

Assessing these risks requires a deep analysis of the current MiCAR regime and of the proposed Guiding and Establishing National Innovation for U.S. Stablecoins of 2025 (GENIUS Act) recently promoted by the US Senate. This analysis highlights that in its current version, MiCAR prioritises investor protection and financial stability and, accordingly, seeks to ring-fence the EU's financial and monetary system. On the contrary, the US GENIUS Act would do less for domestic financial stability, instead prioritising innovation in the private sector and widespread adoption worldwide. Just to name a key divergence, under the GENIUS Act the regulator must set the necessary capital and liquidity requirements on a tailor-made basis and only to the extent necessary to ensure orderly operation while, under MiCAR, issuers must comply with quantitatively and qualitatively defined prudential requirements.

Our analysis demonstrates that MiCAR sets adequate safeguards to ensure financial stability and prevents the digital dollarisation of the European economy. Three features are crucial. First, foreign, non-MiCAR compliant

stablecoins can be held by Europeans but not offered to the (European) public by foreign issuers. Second, MiCAR-compliant issuers that are considered significant for their size, volume or systemic relevance are subject to a significantly stricter regime, especially in terms of ‘reserves and asset safeguards’ and ‘prudential rules’. Finally, for MiCAR-compliant stablecoins which are not denominated in euro, the European Banking Authority and other national regulators—following a binding opinion of the European Central Bank (ECB)—can halt the issuance of foreign-currency-denominated stablecoins if they present significant risks. It remains crucial that the ECB actively monitors those risks as a final safeguard against dollarisation of the euro area.

To understand the challenges of stablecoins to **monetary sovereignty**, it is crucial to understand the impact of a jurisdiction’s rules beyond its borders. Both regimes state that non-licensed issuers cannot lawfully issue stablecoins in their jurisdictions. Besides this common starting point, the US seems keen on attracting also foreign issuers so long as it can retain some (political) control over the issuer. In contrast, MiCAR limits itself to promoting supervisory cooperation agreements. We strongly support this position as the EU regulators should refrain from setting up an ad hoc equivalence regime. The divergence between MiCAR and the US GENIUS Act underscores this risk.

The proposed US law, in sum, reflects the US strategy of **cryptomercantilism**. It promotes international circulation of dollar-pegged stablecoin, potentially at the expense of financial stability and investor protection. While the euro area appears to be protected from foreign issuers by MiCAR, this is not the case for other jurisdictions. The successful promotion of USD stablecoins globally will lead to further dollarisation of third countries, raising severe risks to their monetary sovereignty and financial stability. Dollar-pegged stablecoins will be most attractive to citizens of countries with low levels of financial inclusion and unstable currencies. To encourage the widespread circulation of dollar-pegged and dollar-backed stablecoins, the US already intends to leverage the strength of its crypto industry as well as its dominance in online commerce and social media—notably through US big-tech companies.

These developments are also crucial for the international role of the euro. The internationalisation of a currency is closely tied to **its role in trade invoicing**. Replacing euro-denominated transactions with dollar-pegged stablecoin-based payments would reduce the euro’s attractiveness as a reserve asset. If dollar-backed stablecoins dominate and their reserves rival

those of central banks, this would further entrench the dollar's supremacy as a reserve currency and weaken the euro's global standing.

The EU should not wait for these developments to play out before formulating its response. However, it would be a big mistake to compete with the US by promoting riskier euro-denominated stablecoins through a weakening of MiCAR. Instead, the EU should actively support payment multilateralism by facilitating fast payment systems and, eventually, cross-border transactions between central bank digital currencies (CBDCs). This way, the EU can benefit from more widespread use of the euro while helping third countries counteract the risk of dollarisation through dollar-pegged stablecoins. This requires developing an infrastructure that guarantees the interoperability of CBDCs and fast payment systems for cross-border payments. International cooperation, consistent communication standards, and regulatory approaches are indispensable for facilitating this public money-based interoperability.

The dangers of US cryptomercantilism are severe, for the EU but especially for EU's trade partners. To counter these risks, the EU should lead efforts to build interoperable CBDCs and payment systems. This includes information sharing, consistent communication standards, common AML standards and regulatory approaches to **facilitate cross-border payments**. To avoid financial stability risks associated with increased payment volatility, capital flow management measures should be also considered in **payment infrastructures**.

*The **report** on which this piece is based has been requested by the Economic and Monetary Affairs (ECON) Committee of the European Parliament ahead of the Monetary Dialogue. A version of this post appeared as a **VoxEU Column**.*

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