

The Evolution of Stablecoins

10 Key Milestones

Swipe through to discover how stablecoins evolved from experimental projects to financial foundations that bridge volatile cryptocurrencies with stable fiat money. This carousel unpacks the defining moments that shaped the £160+ billion stablecoin market we know today.

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The Birth of Stablecoins

BitUSD & NuBits (2014–2015)

The Catalyst

Bitcoin's extreme volatility made it unsuitable for everyday payments and store-of-value functions, creating demand for price-stable digital assets.

The Innovation

BitUSD used crypto overcollateralization on BitShares' DEX, while NuBits experimented with algorithmic supply adjustments—establishing foundational stablecoin models that persist today.

These early experiments operated with minimal regulatory oversight but demonstrated that stable-valued crypto assets were both possible and necessary for broader adoption.

The Institutionalization Begins

Launch of Tether (2015–2017)

Market Need

Traders required a reliable USD-pegged asset that could avoid fiat onboarding friction and provide liquidity across exchanges.

Technical Approach

Tether introduced the fiat-collateralized model, initially built on Bitcoin's Omni Layer, with each token supposedly backed 1:1 by USD reserves.

Legacy Impact

Despite controversy over reserve transparency, Tether proved fiat-backed stablecoins could achieve massive market adoption, reaching billions in circulation.

Rise of Regulated Stablecoins

USDC & TrueUSD (2018)

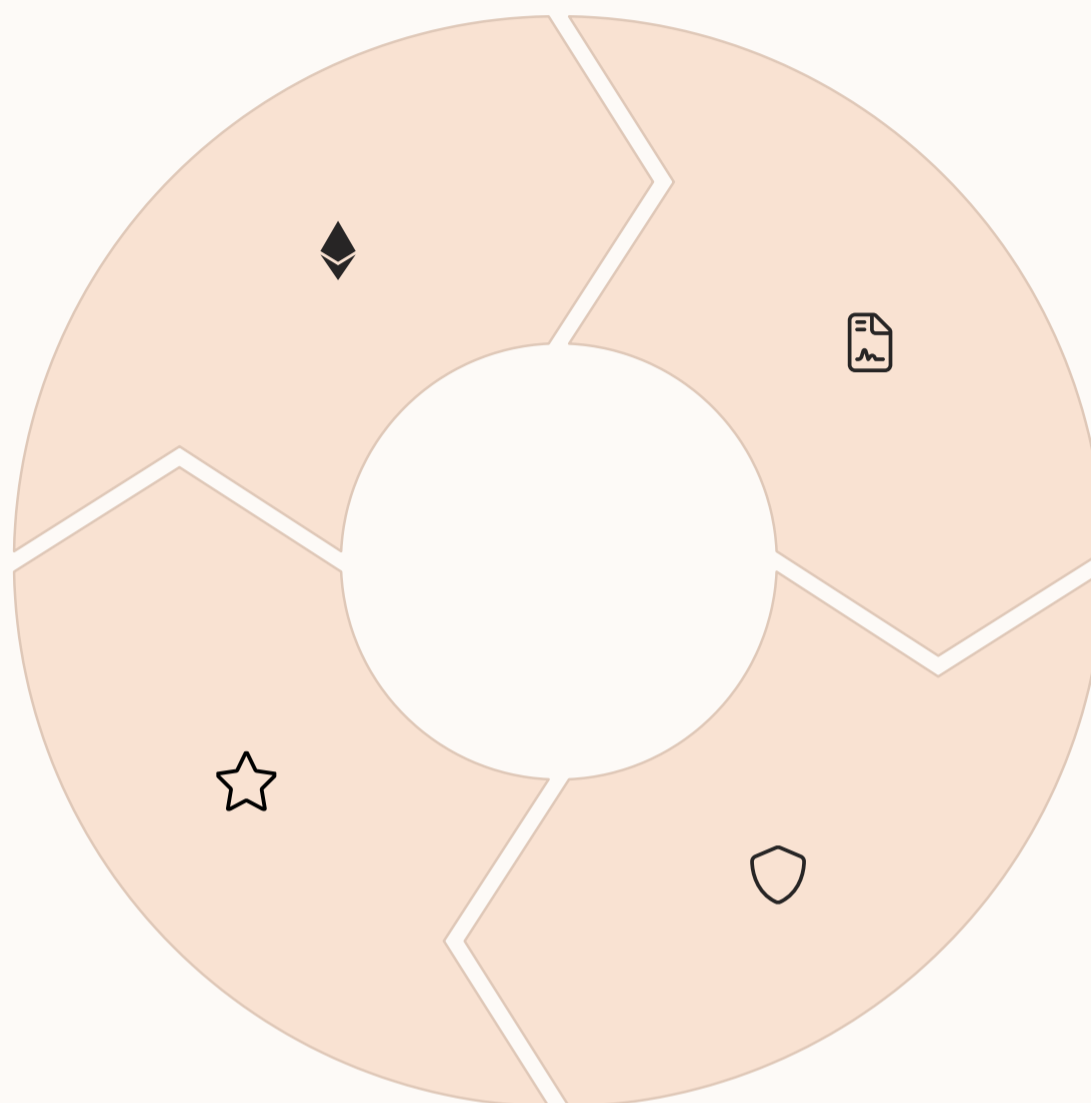
As Tether faced growing scrutiny, institutions demanded trustworthy alternatives with proper oversight. Circle and Coinbase launched USD Coin (USDC) while TrustToken created TrueUSD—both offering:

- Fiat reserves held in regulated U.S. banks
- Monthly attestations from reputable accounting firms
- Clear legal frameworks for issuance and redemption
- Compliance with emerging regulatory guidance

These projects established the blueprint for compliant, transparent stablecoin issuance that would become the industry standard.

The Decentralized Alternative

MakerDAO and DAI (2017–2019)



Collateralization

Users deposit ETH and other crypto assets as collateral in overcollateralized vaults (typically 150%+).



Smart Contracts

Autonomous smart contracts maintain the USD peg through collateral requirements and stability fees.



Censorship Resistance

DAI became the first widely-adopted stablecoin with no central issuer that could freeze funds.



Governance

MKR token holders vote on risk parameters and system improvements through decentralized governance.

DAI proved that trustless, decentralized stablecoins could thrive at scale, becoming the reserve currency of DeFi and inspiring numerous derivatives.

The Algorithmic Experiment

Terra/Luna (2020–2022)

The ambition to create stablecoins without collateral backing led to the rise of algorithmic models like Terra's UST, which:

- Used a dual-token seigniorage model (UST/LUNA)
- Relied on arbitrage mechanics to maintain the peg
- Grew to over £18 billion market cap at its peak
- Collapsed catastrophically in May 2022, wiping out over £40 billion in value

Terra's dramatic failure became the defining cautionary tale in algorithmic finance, triggering global regulatory scrutiny and demonstrating the importance of robust collateral.

Institutional Adoption

Paxos, BUSD & Settlement (2019–2022)

Banking Integration

Paxos obtained trust charter status, while Signature Bank (Signet) and Silvergate (SEN) built real-time settlement networks using stablecoin technology.

Exchange Adoption

Binance's BUSD reached £20 billion in circulation before NYDFS ordered its wind-down in 2023, demonstrating both the potential and regulatory risks.

Payment Partnerships

Paxos partnered with PayPal and Mastercard, bringing stablecoins into mainstream payment infrastructure for the first time.

This phase demonstrated that stablecoins were evolving beyond trading tools to become essential infrastructure for institutional finance.

The CBDC Wave

Central Bank Digital Currencies (2020–2023)

As private stablecoins gained traction, central banks accelerated their digital currency explorations:

130+

Countries

Actively researching or developing
CBDCs

11

Launched

Full-scale CBDC implementations
worldwide

£28B

e-CNY

Transacted in China's digital yuan
pilot

Stablecoins had forced central banks to confront digital currency innovation, bringing them into mainstream monetary policy discourse.

Regulatory Frameworks Emerge

MiCA Legislation (2022–2024)

The regulatory void and Terra's collapse prompted urgent harmonization of global crypto rules. The European Union led with Markets in Crypto-Assets (MiCA) regulation:

- First comprehensive crypto framework from a major jurisdiction
- Introduced clear stablecoin classifications (e-money tokens vs. asset-referenced tokens)
- Required 1:1 reserves in safe, liquid assets for e-money tokens
- Mandated registration procedures and operational requirements
- Set redemption rights and consumer protection standards

MiCA enabled compliant growth while setting a global regulatory precedent that other jurisdictions began adapting into their frameworks.

Real-World Asset Integration

Tokenization & Yield (2023–2025)



T-Bill Backed

USDM and Franklin's BENJI tokenized US Treasury bills, offering transparent yield from sovereign debt.



Institutional Custody

Circle partnered with BlackRock to custody USDC reserves, bringing world-class asset management to stablecoins.



Synthetic Models

Ethena's USDe used delta-neutral positions to generate yield while maintaining stability through derivatives hedging.

Stablecoins evolved from simple fiat representations to yield-generating assets integrated with traditional capital markets, blurring the lines between TradFi and DeFi.

Cross-Chain Connectivity

Interoperability (2024–2025)

As stablecoins spread across multiple blockchains, cross-chain fragmentation created inefficiencies. New interoperability solutions emerged:

- **Native Bridges**

Circle's Cross-Chain Transfer Protocol (CCTP) enabled native USDC transfers between chains through burn-and-mint mechanics, eliminating wrapped tokens.

- **Messaging Protocols**

Chainlink's CCIP and LayerZero created secure cross-chain messaging, enabling composable applications across multiple networks.

- **Institutional Rails**

Fireblocks and other custodians built compliance-first bridging infrastructure for institutional capital movement between chains.

These innovations transformed stablecoins from isolated assets into foundational protocols powering seamless cross-chain finance.

Traditional Finance Integration

Payment Networks (2023–2025)

Major payment networks and financial infrastructure providers began incorporating stablecoins:

- Visa launched a settlement system allowing partners to pay using USDC on Ethereum and Solana
- FedNow piloted programmable settlement layers compatible with tokenized assets
- PayPal introduced its own stablecoin (PYUSD) in partnership with Paxos
- Swift explored interoperability between CBDCs, stablecoins and traditional finance

These integrations represented a major milestone in mainstream adoption, bringing stablecoins into everyday financial infrastructure.

The Terra Collapse

Lessons from Failure (May 2022)

1

Pre-Crash Success

Terra's UST reached £18 billion market cap, becoming the 3rd largest stablecoin and powering a thriving ecosystem with 20% APY on Anchor Protocol.

2

The Depegging

On May 7, 2022, coordinated selling pressure caused UST to lose its peg, triggering the algorithmic mechanism to mint massive amounts of LUNA.

3

The Death Spiral

LUNA's price collapsed from £65 to fractions of a penny as the supply hyperinflated from 350 million to 6.5 trillion tokens in days.

4

The Aftermath

Over £40 billion in value was destroyed, triggering contagion effects across crypto markets and accelerating calls for stablecoin regulation.

The Terra collapse remains the most important cautionary tale in stablecoin history, highlighting the fundamental risks of algorithmic models.

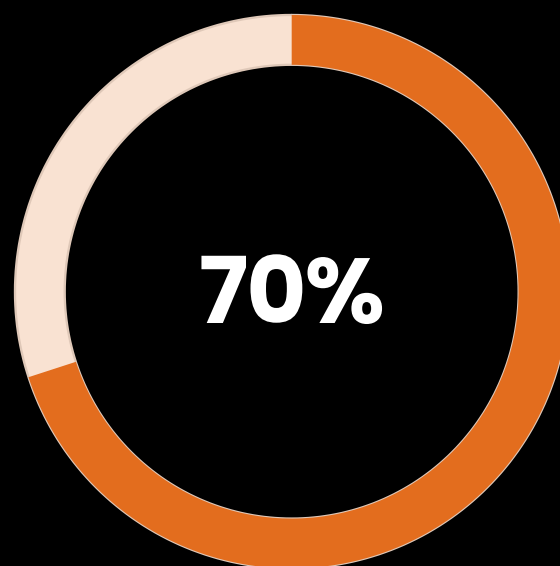
The Stablecoin Market Today

By the Numbers (2024)



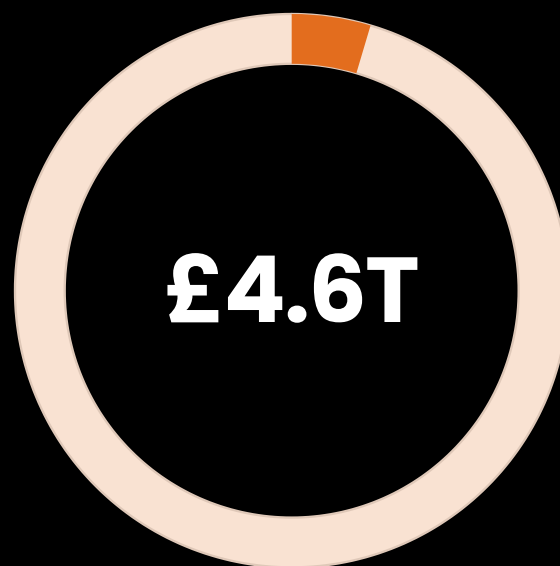
Total Market Cap

Combined value of all stablecoins in circulation



Tether Dominance

USDT's share of the total stablecoin market



Annual Volume

Estimated stablecoin transaction volume in 2023

Despite market volatility and regulatory uncertainty, stablecoins have continued to grow in both adoption and utility, becoming essential infrastructure for the digital asset ecosystem.

Regulatory Challenges

Global Perspectives (2023–2025)

Europe (MiCA)

Comprehensive framework requiring 1:1 backing, redemption rights, and clear issuer obligations. Caps usage for non-euro stablecoins.

United States

Fragmented approach with SEC, CFTC, OCC, and state regulators all claiming jurisdiction. STABLE Act and other legislation remain pending.

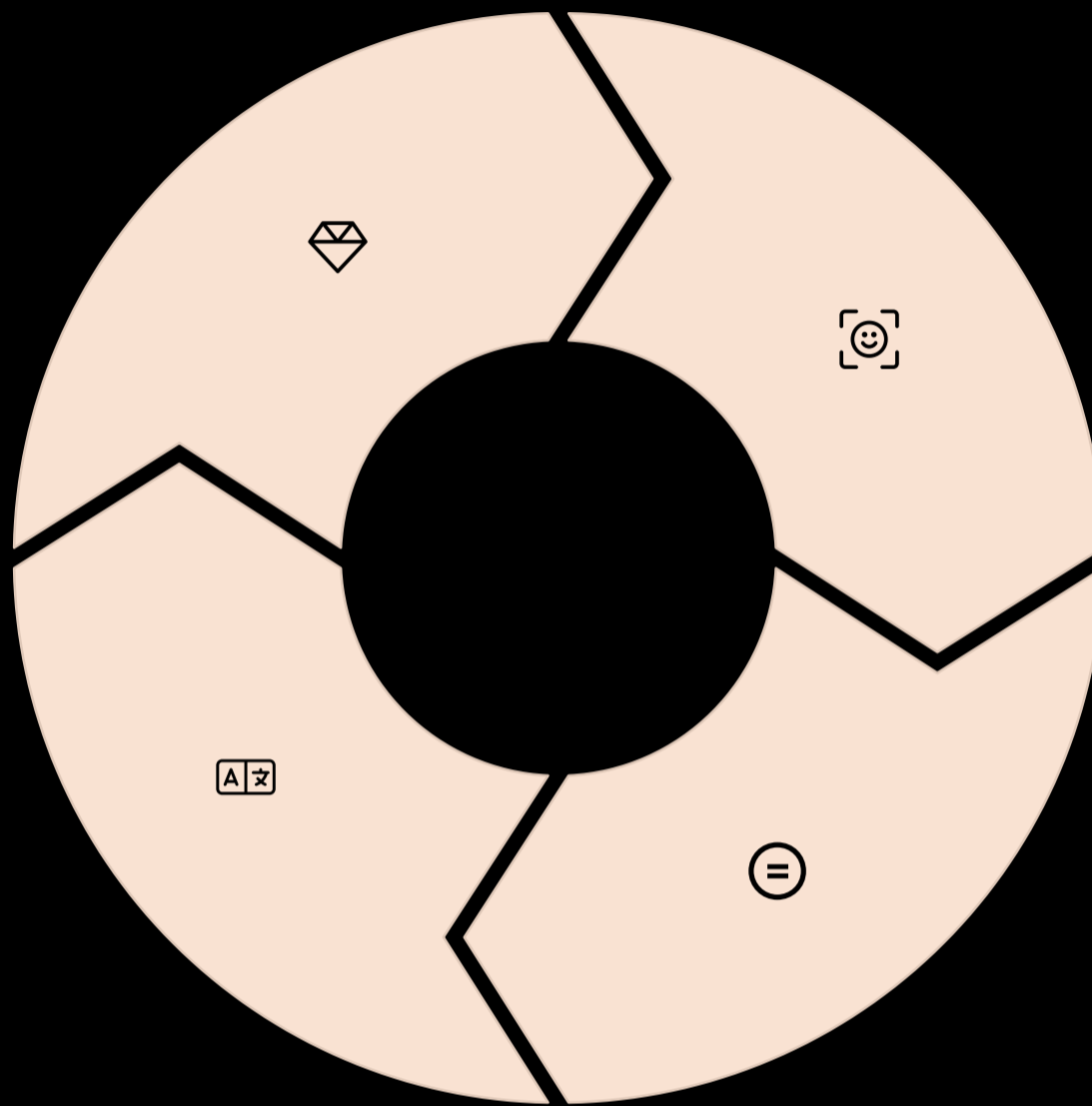
Asia

Varied responses: Japan legalized yen-pegged stablecoins, Singapore created clear frameworks, while China banned them entirely in favor of e-CNY.

Regulatory divergence creates compliance challenges for global stablecoin operators, but also opportunities for regulatory arbitrage.

Emerging Stablecoin Models

Innovation Frontiers (2024–2025)



Yield-Bearing

T-bill backed tokens like USDM and BENJI that pass through interest directly to holders.



Privacy-Preserving

ZK-KYC stablecoins that combine compliance with confidential transactions using zero-knowledge proofs.



Synthetic

Delta-neutral models like USDe that maintain stability through balanced derivatives positions.



Local Currency

Emerging market stablecoins pegged to local currencies like Brazilian Real or South African Rand.

These innovations are expanding stablecoins beyond simple dollar proxies into sophisticated financial products serving diverse market needs.

Stablecoins in Developing Economies

Financial Inclusion Impact

In regions with unstable currencies or limited banking access, stablecoins are providing critical financial services:

- Protection against local currency inflation (Argentina, Turkey, Nigeria)
- Cross-border remittances at fraction of traditional costs
- Access to dollar-denominated savings for the unbanked
- Alternative payment rails where traditional systems are expensive
- Bridge to global financial markets and decentralized finance

Usage in Venezuela, Argentina, and parts of Africa demonstrates stablecoins' potential to provide monetary stability in economies where the local currency has failed to maintain value.

The Future of Money

Stablecoins vs. CBDCs (2025+)

Private Stablecoins

- Market-driven innovation
- Potential for higher yields
- Greater privacy options
- Cross-border by design

Central Bank Digital Currencies

- Legal tender status
- Government backstop
- Potential privacy concerns
- Limited cross-border utility

Hybrid Solutions

- CBDC settlement layers
- Private issuance with public oversight
- Interoperable standards
- Two-tier distribution models

The likely outcome is not winner-takes-all but a coexistence of public and private digital currencies serving different use cases and jurisdictions.

What's Next for Stablecoins?

2025 and Beyond

1

Regulatory Clarity

Global regulatory frameworks will continue to solidify, with MiCA implementation providing a model for other jurisdictions.

2

Institutional Adoption

Banks and payment providers will integrate stablecoins into their infrastructure for settlement and cross-border payments.

3

Yield Competition

Stablecoins will increasingly compete on yield and security features rather than just stability and liquidity.

4

Consumer Payments

Retail adoption will accelerate through integration with everyday payment apps and improved user experience.

The future growth of stablecoins will depend less on technology and more on trust, policy harmonization, and real-world utility in solving payment problems.

Stablecoins: The Bridge to Digital Finance

From experimental projects in 2014 to regulated financial infrastructure in 2025, stablecoins have evolved into a crucial link between traditional and digital finance. As they become embedded in the backend of global payments, their trajectory now depends on trust, usability, and regulatory clarity more than technical innovation.

Whether you're an investor, developer, or policy professional, understanding stablecoin evolution is essential for navigating the future of money.

Share this post with someone interested in the future of digital finance, or tag a colleague who works with stablecoins!

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