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Monetary sovereignty in the age of stablecoins

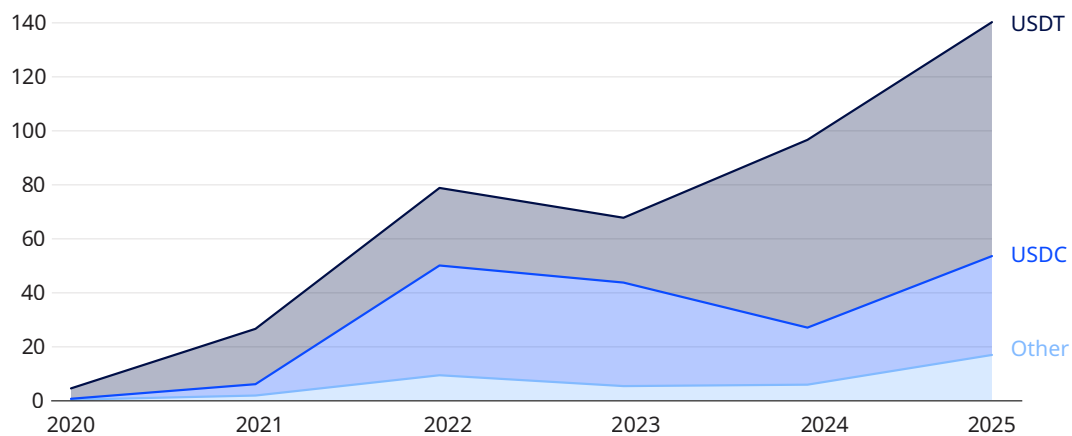
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For nearly eight decades since the start of the Bretton Woods era, central banks and financial regulators have been the custodians of monetary order. They have managed both narrow money, which is issued by the state, and broad money, created by the banks they supervise. Together, these two pillars have anchored confidence in currencies and credit. That monetary order is now being tested by the rise of privately issued money.

Stablecoins — privately issued digital tokens, the majority of which are pegged to the US dollar — are starting to perform many of the same roles as sovereign money. Their design and distribution allow them to move across borders at internet speed, circulate through apps rather than banks, and promise stability without reliance on the state.

Exhibit 1: Selected stablecoin market capitalization

in \$ billions



Source: [IMF](#), [CoinGecko](#)

For central banks and financial regulators, the implications run deeper than operational risks or consumer protection. The sharp expansion of dollar-backed stablecoins over recent years (see Exhibit 1) underscores how quickly private digital money has moved into mainstream use. If households and businesses can hold and move digital dollars as easily as local currency, the familiar tools of monetary management begin to lose their grip. [The International Monetary Fund \(IMF\)](#) has warned that policy levers designed for a world of banks might strain in a world whose money is more digital, more mobile, and increasingly issued by private actors.

Analysis by the [Bank for International Settlements \(BIS\)](#) suggests that the United States' emerging support of US dollar-backed stablecoins might be consistent with the long-standing role of the dollar as a global reserve currency. But regulators have also noted the prospect of currency substitution: the gradual displacement of domestic money by privately issued stablecoins, as noted in [IMF-Financial Stability Board \(FSB\)](#) assessments.

This shift raises two questions: how countries will respond, and what it means for the future trajectories of both stablecoins and sovereign money. The sections that follow examine emerging policy responses, the risks and trade-offs they entail, and the monetary futures that could result from decisions to either ban stablecoins, compete with them, or adapt to them.

Exhibit 2: Three regulatory pathways, divergent futures for stablecoins

The future role of stablecoins — and their impact on monetary sovereignty — is shaped less by technology than by regulatory strategy

BAN — fortress money

Defend the borders of money:

- Stablecoins restricted or prohibited in domestic payments and savings
- Usage confined to offshore or informal channels
- Innovation and activity shift abroad; enforcement costs rise

Monetary sovereignty:

Preserved, but at the cost of efficiency and relevance

COMPETE — state-led alternatives

Outbuild stablecoins:

- Banks, public institutions or CBDCs provide domestic substitutes
- Stablecoins tolerated but displaced in core use cases
- Requires strong institutions and sustained public investment

Monetary sovereignty:

Maintained, with significant fiscal and operational demands

ADAPT — managed integration

Harness stablecoins within the system:

- Stablecoins licensed and embedded in payments and finance
- Efficiency and inclusion gains materialize quickly
- Outcomes depend on supervisory capacity and policy sequencing

Monetary sovereignty:

Reconfigured, ranging from managed coexistence to increased dollarization pressures if control weakens

Source: Oliver Wyman analysis

Countries do not “get” a stablecoin future — they choose one, explicitly or by default.

Emerging use cases: How stablecoins are entering everyday finance

Stablecoins initially functioned as a bridge between the world of cryptocurrencies and conventional finance — a way for crypto traders to move funds without returning them to the banking system. But, as policymakers have noted, and as [BIS](#) research notes, their reach is now expanding. They are increasingly being used in ways that mirror the core functions of money: to pay, to transfer, and to store value.

Three emerging use cases illustrate how stablecoins are finding footholds in everyday finance — not only as stores of value, but increasingly as payment and settlement instruments, particularly in emerging market economies:

Retail payments

In countries where confidence in local currency has eroded, stablecoins are starting to be used in everyday transactions. In one Latin American nation, where inflation recently exceeded 100%, more than 100 online retailers now accept stablecoins as a form of payment. What began as a niche convenience is becoming a parallel payments channel, reducing reliance on national currencies that operate on payment rails supervised by central banks.

Cross-border transfers

Stablecoins are also reshaping remittances and trade payments, long constrained by high fees and slow settlement. In parts of sub-Saharan Africa, where access to foreign currency is limited, stablecoins now account for a growing share of incoming remittances, enabling individuals to receive funds across borders at a fraction of historical costs and with far greater speed. The use of stablecoins for remittances increases during periods of macroeconomic stress, including high inflation and FX volatility (see Exhibit 3). Globally, this shift is no longer marginal: recent [IMF](#) analysis shows that stablecoins now dominate cross-border crypto flows, with transaction volumes reaching around US\$2 trillion in 2024.

US\$2 trillion

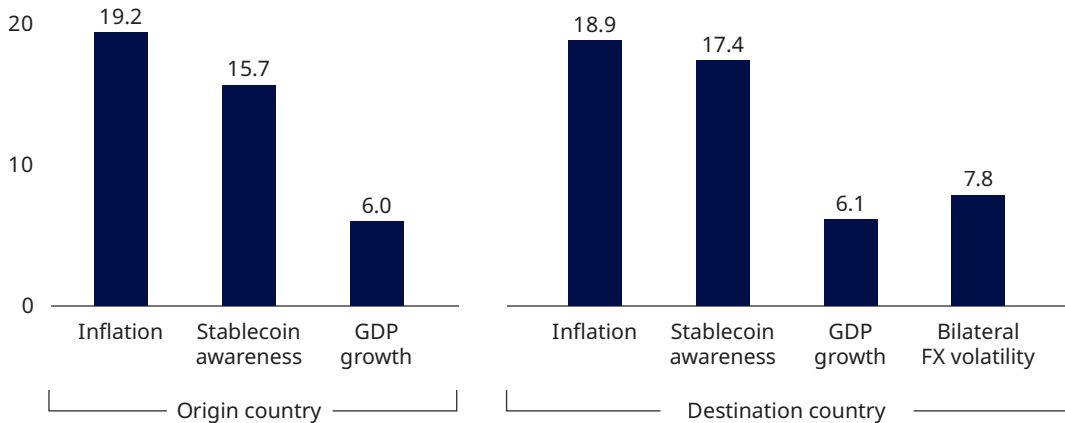
Estimated cross-border stablecoin transaction volume in 2024

Exhibit 3: Drivers of cross-border stablecoin flows

Increase in cross-border stablecoin flows as a result in changes to macroeconomic conditions and stablecoin awareness

Estimated increase in cross-border stablecoin flows when indicators of conditions exceed the 75th percentile of their historical distribution

Change in flows (%)



Note: Bars show the estimated % change in cross-border stablecoin flows when a driver exceeds the 75th percentile of its historical distribution. FX volatility is measured for each country pair over the prior quarter. Crypto/stablecoin awareness is proxied by Google search intensity.

Source: [BIS](#), 2025

Store of value

Stablecoins are also becoming a store of value in economies with high inflation or capital controls. Where domestic currencies continue to depreciate, holdings of stablecoins have risen, offering households and businesses foreign-currency accounts accessible by phone and beyond the limits of domestic banking.

In effect, stablecoins are beginning to fill the cracks in more fragile monetary systems, taking on roles once anchored in regulation and public trust.

Risks to monetary control — the sovereignty question

The rise of stablecoins brings new efficiencies, but regulators have also emphasized their risks. Many of those risks — operational fragilities, reserve mismanagement, lack of consumer protection, and money-laundering — have been extensively documented by international standard-setting bodies such as the [BIS](#) and through joint [IMF-FSB](#) analysis.

Here we focus on a deeper concern that has been highlighted by some authorities: the erosion of monetary sovereignty itself — the gradual migration of control over monetary policy, financial intermediation, and crisis management beyond the realm of the state:

Reduced traction of monetary policy

According to the [IMF](#), several central banks have warned that large shifts into foreign-currency stablecoins weaken the traction of monetary policy. Central banks are accustomed to steering inflation and growth by adjusting interest rates or central bank reserves. But such tools have limited effect on money that sits outside domestic financial systems. If stablecoins denominated in foreign currency become prominent, the familiar levers of monetary policy start to feel lighter in the hand.

Pressure on banks

Stablecoins also compete with broader money — that is, deposits held at banks. If people move their funds into foreign-currency stablecoins — whether for yield, convenience, or perceived safety — banks may face higher funding costs and lower margins. The [European Central Bank](#) and the [Bank of England](#) have both noted that such substitution could weaken banks' resilience.

Crisis dynamics

Authorities such as the [IMF](#) have also warned that, in periods of financial stress, stablecoins could amplify capital flight. If households or firms lose confidence in their local currency, they can now shift instantly into a foreign-denominated alternative. That could rapidly weaken exchange rates. [FSB](#) and the [European Central Bank \(ECB\)](#) both highlight how large-scale redemptions of stablecoins might lead issuers to sell reserve assets quickly, transmitting instability to bond and money markets abroad.

Digital money may accelerate both the benefits and the costs of currency substitution

Use of foreign currency blunts central banks' policy instruments and frays the fabric of financial oversight. With stablecoins, the same forces operate at digital speed — faster, more opaquely, and are harder to contain.

Past episodes of currency substitution offer a warning. In Latin America during the 1980s and 1990s, countries that experienced rapid dollarization often suffered more volatile growth, constrained credit and, paradoxically, higher and more persistent inflation once domestic monetary anchors eroded. IMF evidence reinforces this concern, suggesting that financial dollarization has historically amplified the macroeconomic impact of external shocks. IMF analysis highlights that capital outflows have a more contractionary effect on output in dollarized economies than in non-dollarized peers.

While such transitions historically unfolded over years or decades, in a digital age they could occur within months, meaning stablecoins may compress the traditional timeline of dollarization — accelerating both its benefits and its costs.

Current policy pathways

Will stablecoins remain a peripheral innovation or evolve into a parallel monetary system? That will depend on the strategies taken by central banks and regulators, who are starting to respond in different ways. Three broad strategies are emerging — each visible in different jurisdictions:

Ban — defend the borders of money

Some authorities have chosen to close the gates altogether by prohibiting (or tightly licensing) stablecoin use. For instance, China and several Gulf states have outlawed cryptocurrency trading and stablecoin issuance according to [financial regulators](#) and [international policy reports](#).

By shutting out stablecoins, these countries safeguard their monetary sovereignty. This defensive stance also preserves the effectiveness of any existing capital controls — preventing stablecoins from becoming a conduit for capital flight — even if it comes at the cost of stifling financial innovation.

Compete — build a domestic alternative

Some jurisdictions are choosing to compete with private stablecoins — preserving monetary control while accommodating innovation. They aim to offer citizens the same speed and convenience but through safer, regulated means, for example by launching a central bank digital currency (CBDC) or licensing fully reserved domestic stablecoins. Japan enacted a legal framework in 2023, overseen by the [Financial Services Authority](#), allowing only licensed banks and trust companies to issue fully reserved yen-pegged stablecoins. Digital currency innovation remains subject to national oversight, and control is retained rather than ceded to foreign-currency stablecoins.

Alongside these domestic approaches, cooperation is also emerging at the cross-border level. Some jurisdictions are working together to modernize payments through shared infrastructure, often with support from the Bank for International Settlements or regional groupings. For instance, Project Nexus — led by the Bank for International Settlements Innovation Hub in collaboration with the central banks of India, Malaysia, the Philippines, Singapore and Thailand — seeks to link domestic instant payment systems into a common platform, enabling faster, cheaper and more transparent cross-border transfers without relying on dollar-based intermediaries.

Adapt — accept and manage the new reality

Finally, some jurisdictions are adapting pragmatically to a world in which stablecoins are already embedded in financial life. They tolerate their use for payments or savings, seek to regulate the largest issuers, and focus on managing the associated risks.

In the UK, regulators are starting to include stablecoins within the regulatory framework, as set out by the [UK's Ministry of Finance](#) and the [Bank of England](#). Firms must seek authorisation, comply with capital and liquidity requirements, and ensure that redemption arrangements are robust — but the technology itself is not banned. The European Union's Markets in Crypto-Assets (MiCA) Regulation represents another “adapt” approach. Under the EU's [MiCA](#) framework, common licensing, reserve, and disclosure requirements apply across member states, enabling supervised issuance within the single market. Together, these frameworks show how advanced economies are seeking to manage, rather than ban, the integration of stablecoins into payments and savings.

Responses to stablecoins therefore sit on a spectrum between outright bans and adaptation. There is no universal model — only different trade-offs between control and innovation, which are calculated differently across jurisdictions.

Future monetary paths — how today's choices shape tomorrow's money

These choices made by regulators will set the trajectory for the future of stablecoins and their interaction with traditional money, in different jurisdictions.

Niche coexistence

In jurisdictions that ban or tightly restrict stablecoins, domestic money may hold its ground for a while. Foreign-currency stablecoins may be prevented from taking hold, official currencies remain dominant, and capital controls remain intact. However, enforcement is rarely watertight. Digital assets are borderless, and users are adept at working around restrictions. A world of niche coexistence could emerge, with stablecoins confined to offshore exchanges or informal networks and used for cross-border trade and savings rather than mainstream commerce.

Such coexistence is unlikely to be stable over the long term. As digital payment channels deepen and enforcement gaps widen, the boundary between offshore and onshore use may blur. Niche coexistence may prove a transitory phase — a holding pattern before jurisdictions either integrate stablecoins more fully or see aspects of monetary control erode.

Stable integration

Where authorities choose to compete or cooperate — by issuing domestic digital currencies, licensing tightly backed domestic-currency stablecoins, or building cross-border settlement platforms — a more balanced future could take shape.

This pathway pushes back against the dominance of foreign-currency stablecoins. Multiple digital monies operate side-by-side, under clear regulation and common technical standards. Central banks remain anchors of trust, while innovation extends their reach and efficiency. The result is stable integration: innovation within guardrails, where digital money serves both speed and sovereignty.

Mainstreaming

Finally, some economies may drift toward mainstreaming by default. Having tolerated stablecoins as a pragmatic solution, they may find them woven into daily finance. Foreign-currency stablecoins become increasingly dominant, used by households for saving and payments, while regulators focus on oversight rather than restraint.

Monetary policy continues to operate, but with a weaker grip and shorter reach. The economy functions — sometimes even thrives — but increasingly on foreign monetary foundations. Stability is sustained, while monetary independence is surrendered by degrees.

These scenarios are not mutually exclusive. Different countries may occupy different points along this spectrum, or evolve from one to another as technology, trust, and global alignments change.

But together they sketch the outlines of a future monetary order — one defined not by whether money is digital, but by who commands the confidence behind it.

What will shape the future of money?

Which of these futures takes hold will depend less on technology than on the institutions, incentives, and instincts that define each economy. The same forces that shape monetary policy today — legal authority, supervisory capacity, economic structure and geopolitical alignment — will also determine where countries land on the spectrum from niche coexistence to mainstreaming.

Legal authority and institutional reach

Strong institutions can still draw the boundaries of money. Jurisdictions with clear legal powers and disciplined enforcement — from China to several Gulf states — can credibly police the perimeter of digital finance. As a result, they are best placed to sustain a model of niche coexistence, keeping stablecoins at the edges of the financial system.

Technological and supervisory capability

The ability to design, regulate, and audit digital currencies will distinguish integrators from cooperators. Economies with advanced payment systems, digital identity frameworks, and regulatory expertise — such as the European Union, Singapore, or Switzerland — are best placed to achieve stable integration. They can issue or license domestic digital money, enforce reserve standards, and participate in cross-border pilots that reduce reliance on the dollar.

For smaller or developing economies, building such systems from scratch may be unrealistic. Their most viable defence lies in cooperation: through shared networks or enhanced visibility over capital flows.

Economic structure and risk appetite

Macroeconomic conditions also shape choices. Economies with stable currencies and deep banking systems can afford to prioritise control. Those with chronic inflation, foreign-currency shortages, or shallow financial sectors often have less room to manoeuvre. For them, mainstreaming can become the path of least resistance, with stablecoins offering access to reliable value and liquidity when official money does not. Sub-Saharan Africa shows how bans can give way to pragmatism once stablecoins become indispensable. In such cases, some external dependence becomes the price of inclusion and stability.

Geopolitics and currency dependence

Finally, global power dynamics will be decisive. Large economies with significant financial reach are developing their own digital-currency strategies, whether through public digital currencies or regulated private issuers. Their choices may shape global norms and usage patterns. Smaller jurisdictions may adapt to whichever digital currencies dominate international trade and financial flows.

Conclusion — monetary choice, systemic consequences

Stablecoins are forcing governments to make strategic choices about the future of money. Some will seek to exclude them, others to compete with them, and others to adapt to their growing presence. As this paper has shown, those decisions will be shaped less by technology than by institutional strength, economic structure, and geopolitical alignment — and they will lead to very different monetary outcomes.

Countries must decide which monetary orbit to join — or whether to chart a regional middle path through shared infrastructure. Their decisions will shape not only domestic outcomes, but the architecture of the international monetary system itself. Left to domestic incentives alone, however, these choices are unlikely to converge. Jurisdictions will optimize for their own stability and competitiveness; issuers will seek favorable regimes; and digital money will move quickly across borders.

The risk is not simply that stablecoins grow, but that they do so across a fragmented landscape of rules, standards, and payment networks, undermining trust in money and in the institutions that govern it. Recent Oliver Wyman analysis in [Known Unknowns 2026](#) highlights how trust — in institutions, infrastructures, and governance — remains the ultimate anchor of any store of value or payment mechanism, public or private. How governments manage stablecoins will therefore shape not only domestic monetary outcomes, but the resilience and coherence of the international monetary system itself.

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