



Beyond the Deposit Debate: Why Stablecoins Complement Banks and Strengthen the Dollar

Scott Bauguess, Chad Harper, and JW Verret

TL;DR

Banks argue that stablecoins threaten the economy by eroding their deposit base and lending capacity. They have lobbied against their adoption by pressing authorities to prohibit interest payments and consumer incentives (like rewards). But their anticompetitive measures are not supported by their claims.

- ➔ Most stablecoin activity takes place outside the U.S., supporting cross-border payments and savings in less developed economies and weaker financial systems. This strengthens the U.S. dollar's global role without drawing down domestic deposits.
- ➔ Stablecoins enable onchain lending, a new source of credit to the economy. For example, Aave, the largest onchain lending protocol, holds more than \$41 billion, on par with the 54th-largest U.S. bank. Credit is not diminished—it is competitively relocated.
- ➔ The evidence to date indicates that banks and stablecoins are complements: historically, there has not been deposit displacement, and forward-looking stock correlations between banks and crypto companies like Coinbase and Circle are positive.

Stablecoins do not undermine lending. They expand the financial ecosystem and reinforce the dollar. Critically, and as recognized by the recent stablecoin legislation, they offer an opportunity to modernize the domestic payment system by freeing consumers from the hidden subsidies embedded in swipe fees and foregone interest from low-yield checking accounts—if policymakers embrace rather than resist innovation.

Introduction

Commercial banks have increasingly raised alarms about stablecoins eroding their foundational deposit base and, by extension, their ability to lend to consumers and businesses. Their stated fear is that as depositors migrate their funds into digital tokens, banks' access to low-cost capital would shrink, undermining traditional lending operations. To avoid this outcome, banks are actively seeking to limit stablecoin adoption by encouraging authorities to

prohibit any incentives for end-users to use and hold them, including rewards programs offered by third parties. When assessed critically, however, such a threat to credit markets is overstated. Examining stablecoin use cases, geographic dynamics, and financial-market perceptions reveals that the emergence of stablecoins is more of an opportunity for expansion and innovation—if embraced strategically—rather than a destructive force.

Stablecoin use cases

Stablecoins are digital tokens pegged to fiat currencies, most commonly the U.S. dollar, operating on open blockchain networks. They fulfill four main functions:

① Cross-border payments

Unlike traditional cross-border payment systems burdened by correspondent banking relationships and settlement delays, stablecoins enable low cost, instantaneous settlement without settlement risk. This is especially valuable in regions with inefficient financial infrastructure.

② Store of value

In many emerging markets, households and businesses face currencies plagued by inflation, capital controls, or limited access to dollar-denominated accounts. Stablecoins—particularly dollar-pegged ones—offer a reliable store of value that is accessible globally with only a smartphone.

③ Onchain finance

Stablecoins can be programmed into smart contracts to facilitate atomistic settlement. This makes them indispensable as collateral, unit of account, and medium of exchange across decentralized finance (DeFi) platforms like Uniswap and Aave.

④ Legacy domestic payment systems

The U.S. payment ecosystem is widely regarded as costly and inefficient. Stablecoins, by enabling real-time, low-cost settlement, could challenge this outdated model.

Stablecoin use cases cont.

Empirical evidence shows that stablecoin activity is overwhelmingly international, which substantially reduces any risk to U.S. bank deposits. According to the IMF, of the \$2 trillion in stablecoin transactions in 2024, North America accounted for \$633 billion, while Asia and the Pacific accounted for \$519 billion. In regions with weaker banking systems, stablecoins are even more central: flows equaled 7.7 percent of GDP in Latin America and the Caribbean, and 6.7 percent in Africa and the Middle East (IMF, 2025). These figures highlight that stablecoins are a vital financial infrastructure where traditional banking is costly, exclusionary, or unstable. For the United States, this international orientation is not a threat but an advantage. Because nearly all leading stablecoins are dollar-denominated, their global adoption effectively hardwires the U.S. dollar into the digital economy of emerging markets. Every stablecoin transaction abroad is, in practice, another confirmation of the dollar's primacy—extending its reserve-currency status into the blockchain era. Far from eroding the U.S. banking system, stablecoins deepen global reliance on U.S. monetary leadership, creating new channels of influence and reinforcing dollar demand. In this sense, stablecoins are less a competitor to U.S. banks than a strategic asset for U.S. economic power.

In the realm of decentralized finance, stablecoins are not displacing the traditional financial system so much as expanding it into new, digitally native territory. DeFi platforms replicate core financial services—lending, borrowing, trading, asset management—but do so in a way that is programmable, transparent, and globally accessible. To the extent that some activities shift from banks to the blockchain, there may be a modest draw on traditional deposits. But if the concern is truly about preserving credit creation for consumers and businesses, the evidence shows lending does not vanish—it follows economic activity onchain. For example, Aave, the world's leading decentralized lending protocol, managed more than \$41 billion in total value locked (DeFiLlama, 2025), a scale

comparable to the 54th-largest U.S. bank by deposits (FDIC, 2024). What this illustrates is that credit markets are not shrinking; they are relocating from off-chain to onchain infrastructure. This relocation has benefits: DeFi lending operates 24/7, without geographical barriers, and with collateral and risk parameters enforced by transparent smart contracts rather than opaque balance sheets. The result is a parallel financial system that expands the frontier of intermediation, fosters competition, and pushes innovation in areas where traditional banks have been slow to adapt. For the United States, the growth of DeFi represents not a threat to credit supply, but an opportunity to lead in shaping the next generation of global financial markets. If integrated strategically, stablecoins and DeFi could extend the reach of U.S.-denominated credit far beyond domestic borders, embedding American financial infrastructure more deeply into the global digital economy.

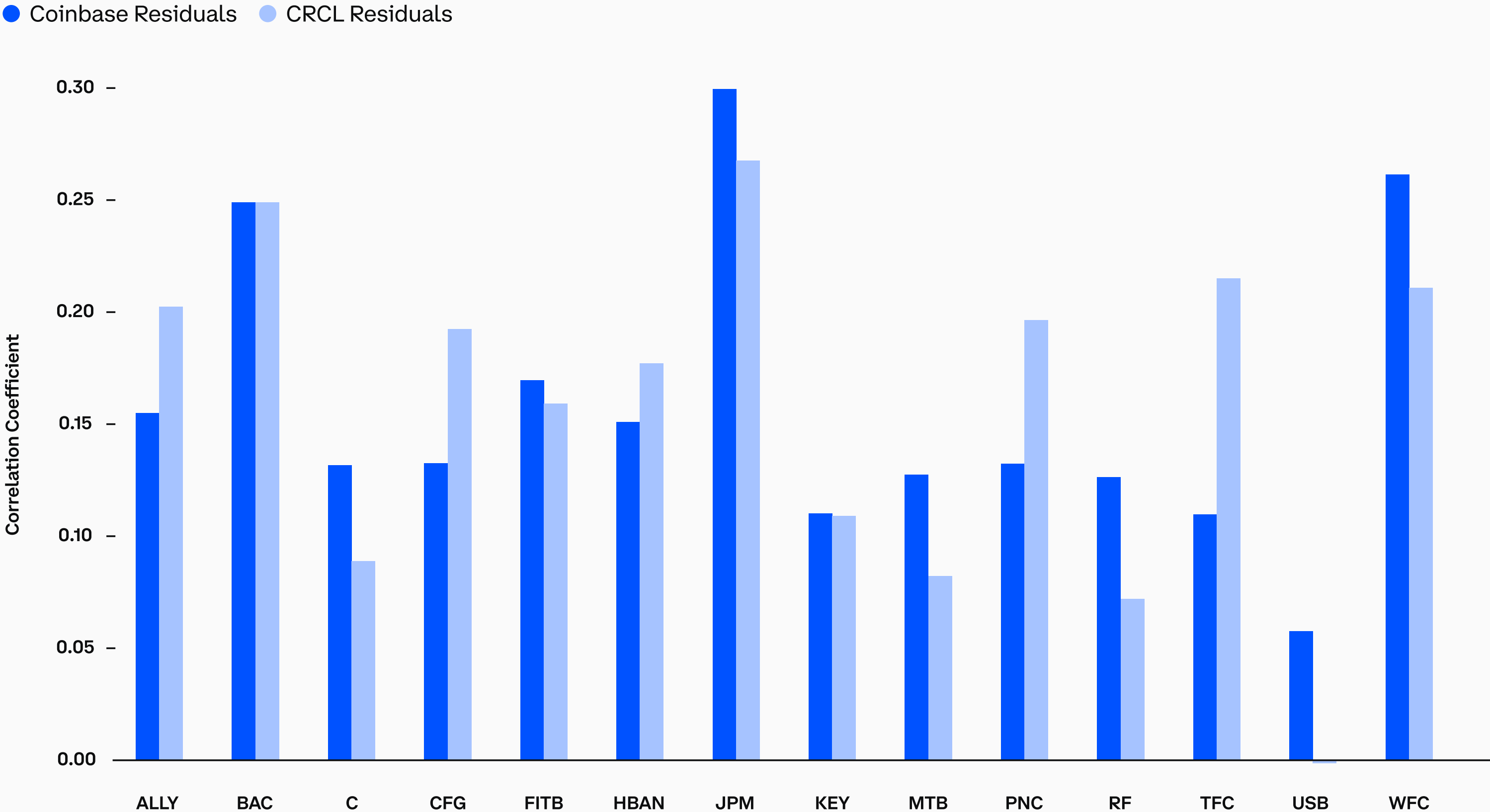
Finally, domestic payments remain a critical battleground. The current system effectively freezes consumers into using a suboptimal, high-cost payment infrastructure in order to subsidize credit creation. If lending has positive externalities, it should be subsidized transparently, rather than hidden in the costs of an inefficient payment system. U.S. consumers absorb extraordinarily high indirect costs through swipe fees—costs that stablecoins could mitigate. In 2024, merchants paid a record \$187.2 billion in credit- and debit-card swipe fees, equivalent to nearly \$1,200 per household (National Retail Federation, 2024). The average per-transaction swipe fee for Visa and Mastercard credit cards reached approximately 2.35 percent, up from 2.26 percent the year before (Fool.com, 2024). These costs are effectively borne by consumers, disproportionately affecting lower-income households while wealthier consumers capture rewards benefits, amounting to a wealth transfer from cash users to affluent cardholders (Tomlinson, 2025). Stablecoins offer an avenue toward a fairer, more transparent payment ecosystem.

Effects of stablecoins on bank deposits and banking

To assess the impact of stablecoin adoption on U.S. bank deposits, it is useful to consider both historical trends and forward-looking indicators. Historical analyses using time-series data on bank deposits and stablecoin market size—including research by Charles River Associates (CRA, 2023)—find no significant negative correlation over the last 4 years between the growth of stablecoins and changes in U.S. bank deposits, even for community banks with relatively volatile deposit bases. This research suggests that, to date, stablecoins have not materially displaced traditional deposit funding. However, the stablecoin market remains small relative to the total assets of U.S. commercial banks, representing roughly 1.14% of total bank assets (Coingecko, 2024; Federal Reserve, 2025; The Currency Analytics, 2025). As this ratio is modest, it leaves open the possibility that the stablecoin market could grow in influence over time.

Forward-looking evidence from financial markets provides additional insight to mitigate such concerns. If investors believed that stablecoins pose an existential threat to traditional banking in the future, we would expect bank stock valuations to decline as stablecoin-related firms gained value. We thus collect stock price data for the largest retail commercial banks, and for Coinbase and Circle for the last three months ending on September 8, 2025, a period that includes the passage of the GENIUS Act. Even after netting out the impact of the overall stock market, the correlation between banks and Coinbase/ Circle is positive and statistically significant, with an average correlation coefficient of about 16%. This indicates that investors generally view stablecoins as complementary to, rather than competitive with, traditional banking institutions in the future, and the latest legislative efforts benefited not only stablecoin providers, but also banks.

Correlation between GSIB Bank Residuals and Coinbase/CRCL Residuals



Moving from obstruction to integration

The growth of stablecoins poses little direct threat to U.S. banks' lending capacity. Most activity is international, reinforcing the dollar rather than eroding domestic deposits. Credit is not disappearing but migrating onchain, and innovation in payments offers the chance to deliver faster, fairer, and more efficient systems. Both market signals and empirical evidence point in the same direction: banks and stablecoins are more likely to be complementary than adversarial.

The real question, then, is whether U.S. institutions will cling to outdated subsidy models or embrace the opportunity to modernize. Stablecoins are just one of several technological forces reshaping finance; fintech companies are also pressing forward with solutions to the inefficiencies of the current payment system. For banks, the strategic imperative is clear: move from obstruction to integration.

By adopting blockchain rails, collaborating with tokenized ecosystems, and extending their core lending strengths into crypto-native environments, banks can expand their role in the next generation of financial markets.

But this transition is not only about banks. Regulators also must recognize that integration, not resistance, is the path to competitiveness. That means allowing stablecoin issuers and platforms to operate on a level playing field—including the ability to offer incentives, just as other financial products do—so that adoption can grow safely and transparently.

Defending obsolete systems through protectionism will only weaken the financial sector and harm consumers. Embracing innovation, by contrast, will ensure that the U.S. financial system, regulators, and the dollar itself remain central to global finance in the digital era.

Note

This material is for informational purposes only, and is not (i) an offer, or solicitation of an offer, to invest in, or to buy or sell, any interests or shares, or to participate in any investment or trading strategy, (ii) intended to provide accounting, legal, or tax advice, or investment recommendations or (iii) an official statement of Coinbase. Coinbase may have financial interests in, or relationships with, some of the entities discussed or referenced in the materials.

References

1. Aramonte, S., Huang, W., & Schrimpf, A. (2021). *DeFi risks and the decentralisation illusion*. BIS Quarterly Review, December 2021. https://www.bis.org/publ/qtrpdf/r_qt2112b.htm
2. Bitwise. (2025). *Stablecoins processed \$14 trillion in 2024, exceeding Visa*. CoinEdition. <https://coinedition.com/stablecoins-processed-14-trillion-in-2024-exceeding-visa-bitwise-data>
3. Buchak, Greg, Gregor Matvos, et al. (2024). *The secular decline of bank balance sheet lending*. https://papers.ssrn.com/sol3/papers.cfm?abstract_id=4738476
4. Charles River Associates (CRA). (2023). *The potential impact of stablecoins on U.S. banking deposits*. CRA Report.
5. Coinbase. (2024). *Stablecoins and the new payments landscape*. Coinbase Institutional. <https://www.coinbase.com/institutional/research-insights/research/market-intelligence/stablecoins-new-payments-landscape>
6. Cointelegraph. (2025). *Stablecoins beat Visa and Mastercard in 2024 volume*. <https://cointelegraph.com/news/stablecoins-beat-visa-mastercard-2024-volume>
7. DeFiLlama. (2025). *Aave protocol TVL statistics*. <https://defillama.com/protocol/aave>
8. Financial Times. (2024). *The dollar's dominance in the age of stablecoins*. Financial Times. <https://www.ft.com/content/840b5a88-ac14-4145-9901-1ffbba39bd56>
9. Fireblocks. (2024). *State of stablecoins report*. Fireblocks. <https://www.fireblocks.com/report/state-of-stablecoins>
10. Fool.com. (2024). *Average credit card processing fees in America*. Motley Fool. <https://www.fool.com/money/research/average-credit-card-processing-fees-costs-america>
11. Handsoffmyrewards.com. (2025). *Hands Off My Rewards*. <https://act.handsoffmyrewards.com/hWGNiEd>
12. International Monetary Fund (IMF). (2025). *Decrypting crypto: How to estimate international stablecoin flows*. IMF Working Paper. <https://www.imf.org/en/Publications/WP/Issues/2025/07/11/Decrypting-Crypto-How-to-Estimate-International-Stablecoin-Flows-568260>
14. McKinsey & Company. (2024). *The stable door opens: How tokenized cash enables next-gen payments*. McKinsey. <https://www.mckinsey.com/industries/financial-services/our-insights/the-stable-door-opens-how-tokenized-cash-enables-next-gen-payments>
15. National Retail Federation (NRF). (2024). *Swipe fees and U.S. retail costs*. NRF. <https://nrf.com/advocacy/policy-issues/swipe-fees>
16. Schär, F. (2021). *Decentralized finance: On blockchain- and smart contract-based financial markets*. Federal Reserve Bank of St. Louis Review, 103(2), 153–174. <https://doi.org/10.20955/r.103.153-74>
17. The Currency Analytics. (2025, August 12). *Stablecoin market soars to \$280B as Tether and Circle lead growth*. <https://thecurrencyanalytics.com/altcoins/stablecoin-market-soars-to-280b-as-tether-circle-lead-growth-194040>
18. Tomlinson, C. (2025, January 17). *Credit card fees reward the wealthy and punish the poor*. Houston Chronicle. <https://www.houstonchronicle.com/business/columnists/tomlinson/article/credit-card-fees-rewards-wealthy-20400426.php>