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STABLECOINS INSTEAD OF DIGITAL DOLLARS?

The Digital Dollar project was launched in the United States in 2020. The study on introducing digital central bank digital currency was primarily motivated by the need to maintain dollar hegemony and increase the speed of remittances. The stablecoin will solve both problems, and data protection and cybersecurity will be the responsibility of the provider rather than the central bank, but it will not allow unwanted access by the state to customer data. Cryptoassets have emerged as a central theme of the 2024 election, in which the U.S. administration aims to make the country a centre of digital development. The two processes have converged on the point that both stablecoins and the digital dollar can ensure the U.S. dollar maintains its role as the leading means of payment. The analysis examines the characteristics of the digital dollar from the perspective of the U.S. financial system, the possible regulation of stablecoins, and the implications of the emergence of stablecoins for the subsequent introduction of the digital dollar.

Keywords: CBDC, digital dollar, stablecoin, payment stablecoin.

1. TYPES OF MODERN MONEY IN THE UNITED STATES

Modern money is considered to be money without intrinsic value, and is therefore also known collectively as fiat money. An instrument with a monetary function must be able to provide three basic functions to fulfil the role of fiat money. This is the function of a means of payment, also known as a medium of exchange, which enables the exchange of value in the economy to take place by inserting money instead of goods. The reserve or treasury instrument is used to store temporary surplus liquidity. Finally, the clearing function allows the determination of the value of each good or service in a given currency as a common and general measure of value.

There are currently three types of money in the U.S. economy: central bank money, commercial bank money, and digital money from non-monetary service providers. Federal

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Reserve money: cash issued by the Federal Reserve and held by commercial banks and service providers that are part of the Federal Reserve's monetary circuit in the accounts of the Federal Reserve. Commercial paper money, which is claims deposited on the accounts of financial institutions and is therefore already a digital form of money (Board of the Governors of The Federal Reserve System, 2022, p. 9). Balances held by non-bank service providers, which can be converted into commercial or central bank money by using a mobile application through an intermediary service provider. The latter are typically fiat money or cryptoasset and crypto wallet providers from fintech and tech providers (Revolut, Wise, GooglePay) or cryptoassets deposited in wallets of crypto trading platforms/exchanges (Binance.com, Coinbase.com, Kraken.com).

Behind the fiat money and the silver and gold-backed money of the gold money system, there was a centralised operator - the central bank of the country. In contrast, cryptocurrencies based on blockchain, which function partly as digital money: bitcoin, tether, and various altcoins, are operated in a decentralised way by a computer network. Each block is assigned a unique identifier and an encrypted code to act as a means of payment and a medium of exchange for the crypto asset. The clearing instrument function is only periodically implemented for brief periods of time for cryptoassets that fluctuate in a wide price band (high volatility).

Therefore, in order to reduce the high volatility of cryptoassets, a new type of cryptoasset has been created: stablecoins. Like a money market fund with a value close to or equal to a unit asset value, stablecoins can ensure their exchange rate stability by pegging the value of their stable assets to gold, foreign exchange or a portfolio of these assets and by using the proceeds from the sale of the stablecoins to buy hedging instruments gold, foreign exchange or other assets. The function of stablecoin is similar to that of money market funds in the fiat money system. Financial operators who temporarily do not wish to place their free liquid assets in risky assets in money market funds achieve returns at or above the bank deposit rates. The sole role of stablecoin is to provide a safe, predictable point of entry into volatile crypto-assets with almost guaranteed value (see net asset value per share in money market funds) (Bujtár, 2016, pp. 218-220). Unlike shares in money market funds, there is an important tax aspect to the spread of stablecoin, namely that as long as an investment does not leave the world of crypto-assets, the holder does not have to pay tax on the exchange gains generated there. The income thus earned is not taxable until the crypto asset is converted into fiat money by any means. Another important feature of fiat money is that it can handle the time of cross-border money transfers at the same speed as online payments, effectively acting as digital money in the payment instrument function.

2. MAIN TYPES AND CHARACTERISTICS OF DIGITAL BANKNOTES

There are two possible basic types of central bank digital currency: physical tokens, which can be modelled on cryptocurrencies in general, and non-physical accounts, which are modelled in the currently known form of the central bank's instant clearing system. In addition, the third possible type of central bank digital currency is a hybrid of the above two (token and account), which partly has the characteristics of one and partly of the other.

Compared to the current fiat currencies, the paradigm shift would clearly be for token-based digital coins with the characteristics of crypto-assets (blockchain-based). China is committed to the hybrid type (Digital Currency Electronic Payment - DCEP) (Pan, 2021), and the United States and the European Union are also committed to the token type.

Looking at the way money is issued, three types can be distinguished:

- a) the central bank, single-tier CBDC,
- b) the two-tier CBDC, i.e., central bank and commercial bank (synthetic)
- c) and private CBDCs not issued by central banks.

The acceptance of a private cryptocurrency as a central bank digital currency, even if partially controlled by the central bank, may already imply a partial abandonment of monetary policy. In this case, not only would the central bank give up the benefit of printing money (seniorage), but it would also lose the possibility of regulating the money supply (Friedman & Schwartz, 1987, p. 295). This is why the decision of the Marshall Islands in 2018 to introduce as its second official currency a cryptocurrency issued by an independent entity (Haan, 2019) or, as already mentioned, the introduction of bitcoin as the official national currency in September 2021 in El Salvador or April 2022 in the Central African Republic, seemed rather reckless (Wintermeyer, 2021).

In the case of central bank digital currency, centralised according to the technology on which it is issued, in the case of single- and two-tier settlement, a further question is to what extent it should be blockchain-based or just a centralised electronic money, such as e-krona. If a blockchain-based version is chosen, there is also the possibility that only persons designated by the central bank could be the approvers (nodes) of the shared ledger system, so that centralisation can be ensured.

Of the above types, privately issued and single-tier central bank digital currency have clearly been left off the agenda of research on the introduction of CBDCs in some countries. Private issuance would pose excessive risks in the areas of monetary policy and cybersecurity. Single-tier digital money would render the role of the traditional banking system as an intermediary redundant, a process that would be further reinforced by the proliferation of stablecoins, with liquidity for blockchain-based payment systems likely to be provided by stablecoins rather than by bank deposits or money market funds.

2.1. Features of the Digital Dollar

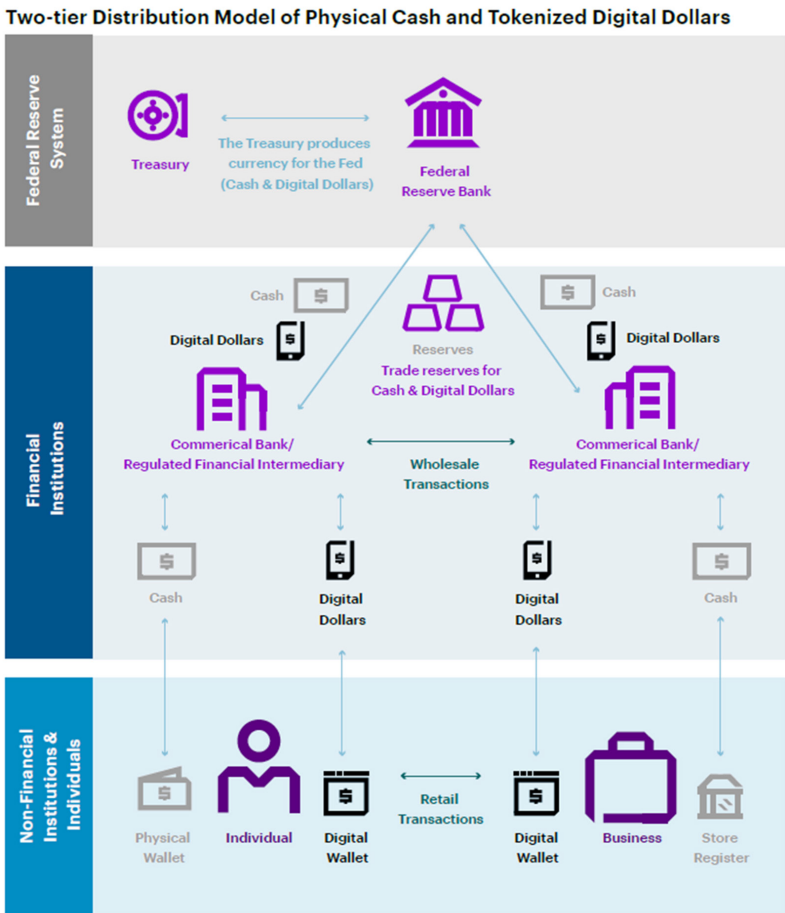
The digital dollar pilot was launched in the U.S. in 2020 as the Digital Dollar Project (Digital Dollar, 2020), coordinated by global financial advisory firm Accenture. Accenture also acts as an advisor to the European Central Bank, the Swedish Central Bank and the Bank of Singapore, and Bank of Canada (2020), which provides a broad insight into the central banks' vision for central bank digital currency in different countries.

In the introduction to the project's white paper, the project identified 4 key objectives for the creation of the digital dollar: a) to support the role of the USD as a global reserve currency, b) to increase time and cost efficiency, c) to provide wider access to central bank money and payment instruments, d) to increase the role of the USD as a cash equivalent in a digital world (Digital Dollar, 2020, p 3).

The project also identified other important aspects for the digital dollar: 1) tokenisation; 2) the use of a financial intermediary system; 3) ensuring data protection for users while respecting the necessary compliance and supervision procedures; 4) the involvement of the private sector; 5) functioning as a new monetary instrument; 6) the openness of the technological solutions in terms of functionality and flexibility in the structures to be created (The Digital, 2020, p. 6).

Based on the above, a digital dollar issued by the U.S. Federal Reserve System with a similar function (token) to paper money would be backed by the full faith and credit of the U.S. government, and would therefore contain the guarantee elements of fiat money from a legal point of view. The digital dollar would be issued by a central bank, which implies that commercial banks and regulated financial intermediaries would be the financial agents performing the circulation and reserve-keeping functions. Retail users and fiat money system operators would be online and offline commercial entities, and the conversion of consumers into fiat money would be carried out through wallet operators. See Figure 1.

Figure № 1.



Source: The Digital Dollar Foundation and Accenture, 2020, p. 9.

In the United States, in addition to the cash payment system, there are instant payment systems that allow financial service providers and all entities to make payments quickly and sometimes net settlement (effectively settling only the difference between bilateral transactions). The wholesale payment system, which is available only to financial service providers, is available to financial institutions with an account with the central bank or other deposit takers, or to U.S. branches of foreign banks. Fedwire, which is owned by the Federal Reserve, is the largest wholesale payment system with about 10,000 members and allows instant net settlement. The CHIPS (Clearing House Interbank Payment System) is a privately owned payment network that also provides net settlement for only 50 members and allows batching of orders for transmission through the Fedwire system.

The NSS (National Settlements Service) is also owned by the FED, but the users in excess of 1,000 are clearing houses and other settlement entities that use it to settle transactions involving multiple counterparties. Consumer and business (retail) payment systems are those that process checks (Check Clearing System), ACH (Automated Clearing House) or wire transfers, privately owned and FED-owned, and finally, privately owned debit card payment systems that clear bank and credit card transactions fall into this category.

These payment systems can process thousands of transactions in a second with high security, so that customers' data cannot be leaked, and the networks are cyber-secure. This is important to underline because it means that a system is already in place at the level of financial service providers, in many cases operated by the central bank, which is secure and, in the case of bank card payment systems, trusted by a very wide range of entities. All this could be a good way of establishing social confidence in introducing a central bank digital currency without the need for a third party (see Fedwire, NSS).

2.2. Advantages and Disadvantages of the Digital Dollar

The 4 main arguments highlighted by the Digital Dollar project are: a) supporting the role of the USD as a global reserve currency, b) increasing time and cost efficiency, c) wider access to central bank money and payment instruments, d) increasing the role of cash in a digitalised world (Radović, 2023, pp. 25-28).

Part of the above is the tokenisation of the digital dollar, which, like cash, supports the maintenance of the dollar's global role, which has declined from 71% (Khan, 2025) to 57.4% (Atlantic Council, 2025) in international reserves, trade and payments settlement since 2001, and provides a real digital alternative to U.S. dollar banknotes in international payments, while keeping a parallel system of them. The token nature could also be a real alternative from a monetary policy perspective, by not only being under the Fed's issuance control but also by enhancing the flexibility of monetary policy by allowing it to deviate from non-interest bearing, maturity-free U.S. paper money, either in terms of interest or maturity (The Digital, 2020, pp. 21, 32). Moreover, all financial service providers within the central bank's scope would be able to issue digital dollars at sector-specific rates, unlike central bank bill money with a uniform interest rate. Another benefit of the digital dollar would be the potential for high mobile phone penetration to provide instant access to 70 million people in the U.S. in a disaster like the COVID-19 epidemic (Klein, 2020).

Interestingly, the Digital Dollar Project highlighted privacy as an important benefit when outlining the balance between consumer privacy and the partial anonymity of the blockchain-based digital dollar and its full availability to central authorities. According to this view, privacy (Digital Dollar, 2020, pp. 20-21) can be ensured even by making digital dollars reportable to the IRS above USD 8,300 and USD 10,000 for cash transactions for individuals and businesses, respectively. The problem, however, is precisely the implementation of digital dollars, which the Boston Federal Reserve and MIT Hamilton project have shown can be implemented in many more types of CBDC than the alternatives under the aspects discussed above (Lovejoy *et al.*, 2025).

It is precisely this aspect of citizen privacy that has become such a rallying cry it has been advocated for since Republican Congressman Tom Emmer reintroduced a previous bill in March 2025, the ANTI_CBDC Surveillance Act (CBDC, 2025), to oppose the introduction of the digital dollar in the United States as a CBDC and to prepare for it. However, if we examine why the American Bankers Association's CEO, Rob Nichols, has stated that the disadvantages of central bank digital currency significantly outweigh its advantages (ABA Banking Journal, 2025). This also illustrates the fears that introducing the digital dollar will reduce the role of the intermediary system. Indeed, the introduction of digital money may appear to be a revolutionary change, and, therefore, the fear of its introduction is understandable. Confidence in the financial system can only be built on a well-prepared roll-out campaign following the testing of a solid, robust, scalable digital dollar. Privacy concerns have arisen because of the extensive public access to data used for the digital yuan (Laband, 2022, p. 533), which, based on the Hamilton project's research, is well managed, either by partial data storage or by an external data provider, or by masking the data.

Similar solutions are envisaged by the Bank of Canada (Jiang, 2024, p. 21) for the CBDC when it comes to reconciling privacy and anonymity. Data protection is understood by the Bank of Canada as the shielding of data from all stakeholders (Bank of Canada, 2023). The privacy by design approach is intended to ensure this primacy of privacy considerations in creating the CBDC. Here, however, full protection would result in significant additional costs and less ease of use, so a one-size-fits-all solution has not yet been found. The solutions that have been tested are constant-time, interactive, zero-knowledge proofs relying on a one-way function and asymmetric encryption (Raza, 2023). Therefore, similar to the People's Bank of China (PBOC), the Bank of Canada would not propose identification up to a certain limit. This limit is 500 yuan per payment, 1000 yuan daily, and 10000 yuan monthly for a digital yuan (Ledger Insights, 2021).

It is therefore not surprising that the rapid proliferation of stablecoins (USD 200 billion) in 2024 (mainly USDT and TETHER) has made them a focus of legislation and a kind of alternative to the digital dollar. Furthermore, it is precisely because of their growing weight and macroeconomic risk that the MICA Regulation has become a necessary part of EU legislation.

3. THE DEFINITION OF STABLE FUNDS AND REGULATORY CHALLENGES

The first time that stablecoins came into the focus of legislation was when Facebook's (Meta) LIBRA caused a major scare about a stablecoin linked to a currency basket (Bujtár, 2022, pp. 26-40), and then a second time when the price of FTX's algorithmic stablecoin (De, 2022) collapsed in May 2022 (Corporate Finance Institute, 2022).

And yet stablecoins were created precisely to solve the problem of fluctuating crypto asset prices (Didenko *et al.*, 2020, p. 18). By pegging the value of a crypto asset to assets with lower volatility (foreign exchange, foreign exchange baskets, precious metals), they ensure that the significant volatility problem is addressed.

3.1. The Proposal to Regulate Stablecoins in the United States in 2025

In March 2025, three proposals for regulating stablecoins were submitted to the U.S. Congress (Cieplak *et al.*, 2025). It is no coincidence that a member of the Board of Governors of the Federal Reserve has already stated in 2021 that a full rulebook (Marte, 2021), i.e., a full banking licence, is unnecessary for stablecoins. The three proposals all aim to regulate payment stablecoins, i.e., stablecoins backed by foreign currency (USD). It is precisely for the above reasons that endogenously collateralised stablecoins (algorithmic stablecoins) are not allowed or are only allowed after a moratorium of 365 days or two years after the law comes into force.

The supervisory body would be the Federal Reserve in the case of the Waters Act only, and the Office of the Comptroller of the Currency (OCC) or the National Credit Union Administration (NCUA) in the other two cases. The Genius Act would authorise federal supervision for assets over \$10 billion and state supervision below that amount.

All three bills excluded the possibility of classifying stablecoins as securities or commodities. This was done to exclude the potential supervisory powers of the Securities and Exchange Commission (SEC) and the Commodities and Futures Commission (CFTC). However, the two key safeguarding measures are the monthly reporting requirement on the composition of the liquid portfolio at current par value and the fact that all three bills classify the issuer of stable value securities as a financial institution, which would extend to issuers the immediate reporting requirement of USD 10,000 mentioned above.

4. CONCLUSION OR WHAT EFFECTS THE RISE OF STABLECOINS COULD HAVE ON THE INTRODUCTION OF THE DIGITAL DOLLAR

The rise of stablecoins over the digital dollar is a seemingly surprising turn in the history of blockchain technology regulation in the United States. After all, stablecoins had already been accepted before the legislation was passed, so the legislature was only setting the necessary prudential framework for further growth. From the point of view of the digital dollar, a payment stablecoin could be an excellent catalyst. Privacy concerns could be alleviated, the hegemony of the dollar could be strengthened and a wider segment of the population outside the borders of the United States could adopt a digital dollar-based currency (USD pegged stablecoin), creating the possibility of a successful introduction of a digital dollar based on robust technology by 2028, as the European Central Bank envisages for the digital euro.

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