Economic Bulletin

Stablecoins Could Increase Treasury Demand, but Only by Reducing Demand for Other Assets

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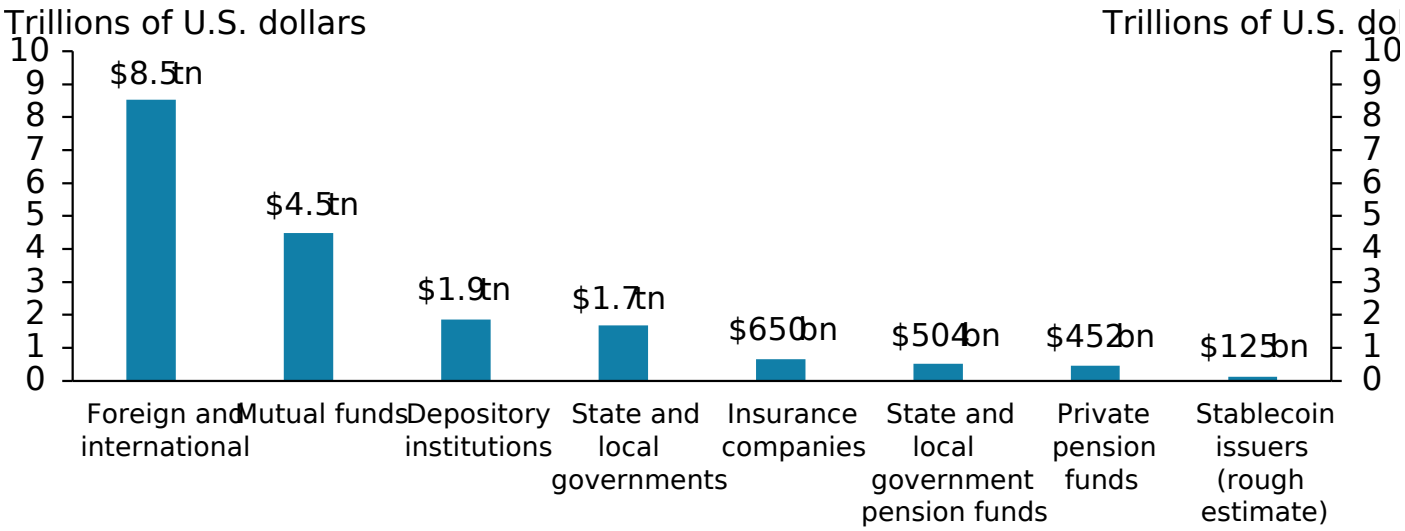
Many expect the establishment of a U.S. framework for stablecoins to increase demand for Treasuries, thereby supporting the Treasury market. Although stablecoin issuers are currently only a small part of the Treasury market, they could become a much larger part under some external projections. However, such a large funding shift could have important implications for other parts of the economy, such as a possible reduction in the supply of credit.

Congress recently passed legislation (the GENIUS Act) that establishes a framework for the issuance of U.S. dollar stablecoins, a cryptoasset intended to maintain a stable value relative to some other asset. This framework could boost demand from stablecoin issuers for U.S. Treasuries, the deepest, most liquid market in the world.

The effect of U.S. dollar stablecoins on the Treasury market will depend on the stablecoin market's size and future growth. The current market for stablecoins is relatively small: Today, the entire U.S. dollar stablecoin market is around $250 billion. However, not all stablecoin issuers' assets are held in Treasuries. The largest U.S.-based issuer of stablecoins (Circle) holds around $20 billion in Treasury bills, or roughly half (43 percent) of their assets as of January 2025.[1] If all issuers held a similar proportion of their assets as Treasuries, they would hold around $125 billion in Treasury bills—less than 2 percent of the $6 trillion in outstanding Treasury bills.[2] While this sum is not negligible, the stablecoin industry is not as yet considered a major part of the Treasury-bill market, and issuer behavior likely has a limited effect on overall Treasury liquidity. Chart 1 shows that insurance companies hold about $650 billion in Treasury debt, or about five times more than stablecoin issuers.[3] Mutual funds, the largest private holders, hold about $4.5 trillion—about 36 times more than stablecoin issuers.

Chart 1: Estimated ownership of U.S. Treasury securities (as of December 2024)



Sources: U.S. Department of the Treasury, Circle, and author's calculations.

Although the stablecoin market is currently too small to have a large effect on Treasury demand, the market is expected to grow substantially over the next several years. To reach the size of the next smallest category of U.S. Treasury security owners (private pension funds, which hold just over $450 billion in Treasuries), the stablecoin market would need to reach at least $900 billion (that is, grow by nearly 260 percent) at the current rate of Treasury holding by issuers (since $900 billion × 0.5 = $450 billion). While this growth would be substantial, it is within the range of several independent projections for stablecoin market growth in the medium term. J.P.Morgan recently projected the stablecoin market to reach $500 billion by 2028, while Standard Chartered estimated $2 trillion by 2028 and Bernstein $4 trillion by 2035 (Singh 2025).

If the stablecoin market meets these growth projections, it could lead to a substantial redistribution of funds within the financial system. Funds flowing into stablecoins have to flow out of another source. If stablecoins are purchased out of checking accounts, for example, then these purchases represent a shift of funds from banks (as deposits) to issuers (as stablecoins). Although some issuers may themselves be banks, stablecoins differ from deposits in important ways. Bank deposits may be backed by other assets, most notably loans directly to the economy, and are ultimately backed by the full faith and credit of the United States for insured deposits. Loosely, under the GENIUS Act, issuers must completely back their stablecoins with Treasuries, physical cash, demand deposits at depository institutions, certain repurchase agreements, certain money market funds, or as reserves at the Federal Reserve. Because deposits and stablecoins are both used transactionally, many stablecoins will likely be purchased using money currently held in banks as deposits.

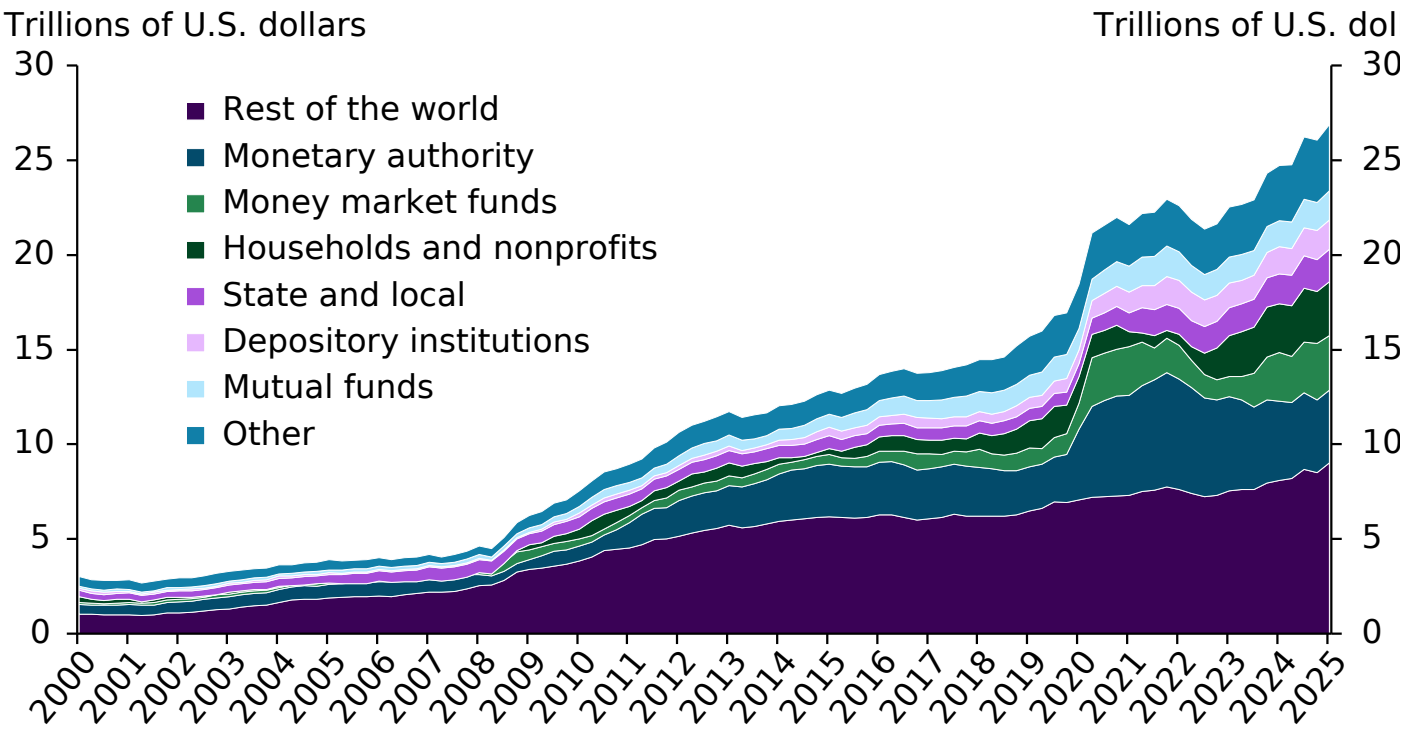
This potential flow of funds from bank deposits into stablecoins could increase Treasury demand but also could reduce the supply of loans in the economy. Today, U.S. banks hold around $26 trillion in total assets, 20 percent of which are Treasuries

(about $5 trillion total). However, Treasuries make up an even higher share of assets held by stablecoin issuers (about half). If banks and issuers' asset mixes continue to hold, a shift of funds from banks to stablecoin issuers would necessarily increase Treasury demand, as the increase in issuer Treasury holdings would more than outweigh the decrease in bank holdings. However, banks also hold about 50 cents of every dollar in loans directly to the economy (or about $13 trillion). Legislative requirements preclude stablecoin issuers from using their funds to make traditional loans directly to the economy. Thus, while shifting funds from banks to issuers could potentially increase demand for Treasury debt (particularly shorter-term debt), it would also mechanically reduce the potential supply of loans to the economy.[4]

To put this effect in dollar terms, we have to account for increased demand from stablecoins being offset to some degree by declining demand from banks. Under the strong assumption that banks' and issuers' current asset mixes continue to hold, an additional $1 in stablecoins would increase total Treasury holdings by $0.50. The corresponding $1 less in bank deposits would decrease Treasury holdings by $0.20 cents and decrease loans by $0.50 (the remaining $0.30 is held in other assets). In this scenario, the net effect of $1 moved from banks to a stablecoin issuer would still decrease bank lending by around $0.50 but increase total Treasury holdings by $0.30. Assuming the stablecoin market grows from $250 billion to $900 billion, as previously discussed, the $650 billion in growth could represent a shift from bank deposits to stablecoins. This shift would represent a 1 percent decrease in both bank assets and bank lending—that is, a $325 billion reduction in bank loans to the economy. Since banks may also hold longer-dated Treasuries than issuers, a growing stablecoin market may shift demand toward shorter-term Treasuries and away from long-term Treasuries.

Although bank deposits are potentially a major source of the funds used to purchase stablecoins, funds used to purchase stablecoins may also be diverted from other sources. Chart 2 shows the composition of Treasury debt holders, which includes money market funds, mutual funds, and direct holdings. Each source could have different implications for the net effect on Treasury demand and possible trade-offs. For example, if households forego purchasing new Treasuries or sell their direct holdings of Treasuries to purchase stablecoins, Treasury demand would *decline*, because $1 fewer Treasury purchases from the household would create only $0.50 of additional Treasury purchases from the stablecoin issuer (under the same assumptions used thus far).

Chart 2: Holders of Treasury debt (trillions of dollars)



Sources: U.S. Bureau of the Fiscal Service and U.S. Department of the Treasury (Haver Analytics).

An important caveat is that should the sources of the funds that are shifted toward stablecoins sell Treasuries at the same rate that stablecoin issuers purchase them, then a larger stablecoin market will have no net effect on Treasury demand at all. To whatever extent a growing stablecoin market increases the demand for Treasuries, it necessarily pulls funding from some other former use (such as loans to the economy).

Endnotes

[1] A large fraction of Circle's holdings are also Treasury repos.

[2] As of June 2025, the issuer of the largest stablecoin, Tether, coincidentally reported that it held around this amount ($125 billion) in U.S. Treasuries. Even this sum would represent about one half of 1 percent of the total privately held Treasury debt outstanding ($24.7 trillion).

[3] All ownership data other than for stablecoin issuers are from the Treasury Bulletin. Stablecoin issuer data are approximate extrapolations from the largest U.S.-based issuer (Circle) to the stablecoin industry as a whole.

[4] Of course, the proportion of bank assets held in Treasuries is not fixed. The net effect on demand will be determined by the equilibrium balance of bank asset composition and stablecoin issuer composition. If banks ultimately reduce their balance sheet by selling Treasuries at the exact rate that stablecoin issuers are buying them, then the stablecoin market will have zero net effect on Treasury demand.

Article Citations

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