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Can Stablecoins Prevent Price Increases and Financial Instability? An Economic and Legal Perspective

Abstract: This study investigates by adopting a legal view how feasible could be for stablecoins to prevent price and financial instability. The composition, reliability and stability features of the reserves backing stablecoins as well as the consequent perspectives for acquiring the ‘legal tender’ label are examined. Adopting stablecoins as defence against inflation and financial fluctuations necessitates a common legal framework in a worldwide extent and the creation of a global common monetary union. By building on previous research and combining a legal and economic approach, this paper argues that the prerequisites for reaping the benefits from stablecoins are very difficult though not impossible to be realized.

Keywords: Regulation, Legal tender, Stablecoins, National currencies, Inflation, Financial stability

JEL Classification: E42, E52, G15, K22

1. Introduction

The growing frequency of economic and financial crises during the last decades has brought to the forefront the necessity for monetary systems to look for alternative forms of liquidity that should be resilient to inflationary pressures and the weakening of financial stability which is rooted in the wide array of uncertainty sources (Dong and Wen, 2023). The vulnerability of national currencies to devaluation stemming from external shocks caused by geopolitical, economic, fi-

nancial, or climate risk has cultivated the need for larger levels of stability so as to safely accomplish their role as means of transactions, units of account and store of value (Phan, Iyke, Sharma & Affandi, 2021). Decentralized finance in the form of cryptocurrencies has far from succeeded to achieve the desired credibility as it mostly expresses the risky and profit-seeking mentality of investors (Zetzsche, Arner & Buckley, 2020). Up to the present, regulators have addressed the special cases of cryptocurrencies in a range of manners, from outright prohibition to passive tolerance (Ferreira, 2021). This happens despite being able to surpass the dominating influence of concentrated financial intermediates that are responsible for cost- and time-frictions in transactions and investments (Aquilina, Frost & Schrimpf, 2024). Based on the need for further elaboration on digital forms of liquidity, stablecoins have been brought about as a promising alternative that could combine higher eligibility and speed than traditional fiat currencies and, at the same time, larger stability and trustworthiness than decentralized cryptocurrencies. Apart from this, stablecoins are believed to be the driving force for the establishment of cryptocurrencies in investors' perceptions that could serve for easier decentralizing of the financial payments system and smoother acceptance of digital currencies as 'legal tender'¹.

This study adopts a legal perspective to conduct the examination of the potential of stablecoins to play the role of efficient protection devices against fluctuations in market values with the emphasis on devaluation of national money instruments, such as the US dollar, the Euro, the Japanese yen, etc. Moreover, the direction and size of stablecoins' impacts on the resilience of the global financial system is under scrutiny. The main axis for analysis of the footprint of stablecoins on the international monetary and financial landscape are the assets on which they rely to prevent fluctuations in their values and the legal framework surrounding their adoption. In other words, assets backing the value of stablecoins permit the categorization of stablecoins in different asset classes and in different levels of eligibility, reliability and efficacy in order to fight malfunctions of the modern monetary and financial system. Differences in the nature of the backing assets imply dissimilarities in the legal framework characterizing each type of stablecoins. This research is related to crucial strands of monetary economics like national currencies (Fabris, 2019; Kyriazis, 2022; Khalil and Strobel, 2024; Kekre and Lenel, 2025), cryptocurrencies (Kyriazis, 2019a, 2019b, 2020, 2021a, 2021b; Kyriazis and Prassa, 2019; Karau, 2023; Yae and Tian, 2024), stablecoins (Lyons and Viswanath-Natraj, 2023; Hui, Wong & Lo, 2025) and central bank digital currencies (Allen, Gu & Jagtiani, 2022; Bai, Cong, Luo & Xie, 2025; Gal and Ju-

¹ <https://www.forbes.com/sites/rachelwolfson/2018/03/29/an-explanation-for-the-rise-of-stable-coins-as-a-low-volatility-cryptocurrency/?sh=3b7ee5435700>

hasz, 2025), central bank policymaking (Kyriazis, 2017; Kyriazis and Economou, 2017, 2019; Twinoburyo and Odhiambo, 2018; Elsayed and Sousa, 2024; Miró, Piffaut & Zurdo, 2025) as well as the regulatory framework for money instruments (Ferreira, 2021; Borowicz, 2023; Schuler, Cloots & Schär, 2024; Martino, 2025; Wong, Chan & Yousaf, 2025).

Legal and economic analysis reveals that designing, materializing and applying a uniform legal framework that could render feasible the adoption of a universally-accepted digital means of transactions, unit of account and store of value is far from easily achievable though not unrealizable if specific conditions are satisfied. Section 2 provides the literature review. Section 3 lays out the methodological framework for analysis, while Section 4 offers the economic and legal analysis. Finally, Section 5 concludes.

2. Literature review and basic characteristics of the main types of cryptocurrencies

Interestingly, an important number of people find it difficult to distinguish between different forms of digital liquidity. Notably, a range of categories of digital assets can be traced. Firstly, fiat cryptocurrencies of large capitalization such as Bitcoin and Ether initially appeared and constituted the driving force for making digital investments popular to economic agents. These are believed to be very speculative investment tools and their nominal value could become thousands or millions of times larger than their intrinsic value (Böhme, Christin, Edelman & Moore, 2015). This means that they exhibit a greatly bubbly character that attracts speculators but discourages modestly-risky investors from devoting funds on them (Kyriazis, 2020). Investor sentiment plays a major role in the formation of intense bull or bear tendencies in cryptocurrency markets and this cannot be impeded by the very weak legal framework surrounding them (van der Linden and Shirazi, 2023). The latter stems from the difficulty of classifying them as currencies or commodities (White, Marinakis, Islam & Walsh, 2020). Irrational investing based on mimicking behaviour and herding phenomena is often triggered by promoting conducted by famous investors, artists or mind-makers that fertilize the ground for new rallies in cryptocurrency markets. Difficulties in applying technical analysis and making accurate predictions for their performance constitute frequent phenomena but the repeated character of financial crises due to pandemic or war-induced stagflation leads to increasing levels of trading volume and market capitalization (Zhao, 2022). Their characterization as ‘gambling instruments’ is largely based on the lack of an ‘official currency’ label by a legal perspective at least in advanced economies (Gorjón, 2021) as they are mainly

regarded as investment tools for easy-profit seekers rather than as new forms of liquidity that could replace traditional currencies such as the US dollar, the Euro or the Japanese yen (Zhang, Sun, Duan, Hong & Wang, 2023).

As concerns the second category of digital liquidity, which is 'stablecoins', these are usually backed by precious metals such as gold or major international currencies like the US dollar for the purposes of reducing volatility in their market values (Giudici, Leach & Pagnottoni, 2022). This backstop against fluctuations renders stablecoins bear greater resemblances to national fiat currencies than cryptocurrencies do. Such coins, e.g. Tether, are closer to accomplishing the main functions of money (means of transactions, unit of account, and store of value). Stablecoins also favour the absence of need for financial intermediation by banking institutions and reinforce higher ability for anonymity in transactions. These features have rendered them very popular as they translate into low transaction costs and high levels of eligibility in transactions (Catalini, de Gortari & Shah, 2022; Fantacci and Gobbi, 2021). Stablecoins are regarded as a great opportunity for advancing the modern financial system as they are not dependent on legal restrictions up to the present but they are considered to be a much weaker source of financial instability in comparison to decentralized cryptocurrencies. On the other hand, proponents of traditional financial systems argue that stablecoins carry a significant level of legal uncertainty and this renders them a source of financial instability and a potential menace to the efficiency of monetary policy-making (Sheehy, Hawkins & Diaz-Granados, 2023).

Stablecoins are crypto assets which aim to preserve a steady value in relation to a specific asset or to a basket of assets. They are considered to be alternative forms of liquidity for bank deposits and cash and the same would apply vis-à-vis central bank digital currencies upon their creation. Stablecoins are usually tied to international currencies such as the US dollar that present low levels of market value volatility and this works beneficially for their functioning as a reliable money form. This means that stablecoins could safely work for crowding-out national currencies in emerging countries that suffer from high devaluation in national currencies and the consequent reluctance of domestic agents to hold domestic currency during crises (Bains, Ismail, Melo & Sugimoto, 2022). Notably though, some stablecoins exist with national currencies of emerging economies backing them up. This group of stablecoins does not enjoy as much credibility as stablecoins backed by gold or major international currencies. Consequently, they carry weaker perspectives for acting as anchors against great widening between nominal and fundamental values or against abrupt currency devaluations. This results in lower potential for mitigating currency devaluation and financial tur-

moil. Such inability to ensure safety against crises would stem from the reserves to which the stablecoin would be pegged having the form of a volatile currency.

3. Methodological framework for analysis

3.1. Examining the special features of stablecoins

The axis of our analysis are the special features of stablecoins and how these could influence their use as money. So emphasis is given to the special character of stablecoins as they are cross-border money. Differently said, they can be denominated in a specific national currency acceptable in international markets, including national markets that use a different unit of account. This gives the opportunity to stablecoin issuers having their headquarters in a country with a specific legal framework to offer their services globally. This is of great importance for monetary independence of economies as the adoption of foreign-denominated stablecoins could highly likely influence the efficacy of monetary policymaking in the country accepting such foreign money. This is in tandem with the influential effects of decentralized cryptocurrencies on monetary policymaking (Karau, 2023). So stablecoins expressed in US dollars could serve for the dollarization of emerging economies. This translates into higher monetary stability for these countries but also higher uncertainty for the US monetary policy as greater risk would be infused in the US dollar markets. In case that US dollar-backed stablecoins became popular by a substantial level, they would function as considerable determinants of systemic risk and their contagion potential towards other economies and financial sectors would strengthen.

In case stablecoins constitute a non-negligible alternative for transactions in the place of fiat money then further stabilization mechanisms should be enhanced and cooperation between national legal frameworks would become indispensable for creating a globally-accepted relevant regulatory framework. Stablecoins redeemable in widely-accepted, reliable and highly liquid forms of money could be regulated similarly with banking institutions. Regulation should be tailored to ensure efficient supervision, safety, soundness and resolvability of stablecoins similarly with the exposures of banks so as not to generate any instabilities or loss of confidence.

Inflationary pressures that weaken national currency values would be the driving force for the strengthening of stablecoins in investors' perceptions that would benefit from the substitution of weak currencies with stablecoins and attract credible liquidity forms as anchors of the difference between fundamental and

nominal values of stablecoins. The price stabilization mechanisms of current stablecoins could result in loss of confidence which could exert negative spillovers to broader cryptoasset markets and the traditional financial sector. Moreover, stablecoins could lead to higher leverage -if not prevented by law- and to liquidity mismatching in the DeFi ecosystem (MacDonald and Zhao, 2022). The growing systemic importance of stablecoins would be a double-edged sword for monetary stability and the appropriate legal definition of stablecoins would act as the cornerstone of success of this potentially inflation-proof financial landscape.

3.2. Independence of central banks and room for eligibility within a legal framework

Monetary policy efficacy is strongly dependent on the levels of credibility and independence that central banks present. The trust in monetary authorities is mainly based on them being devoted to safeguarding and accomplishing their tasks of controlling inflation and ensuring financial stability (Agénor and Flaminio, 2022). However, central banks are often called to play more active roles than stated in their mandates, which means they have to act as crisis managers, macro-prudential and micro-prudential supervisors and sometimes as resolution authorities (Goodhart and Lastra, 2018). Thereby, stretching their mandates to include their functions as lenders of last resort or as tools to restore damages from poor fiscal policymaking renders monetary authorities susceptible to criticism and loss of trustworthiness. Unconventional monetary action taking –such as Quantitative Easing, Outright Monetary Transactions or helicopter money drops- or expansion of the monetary base –by including digital currencies- are considered to be harmful for the credibility of central banks as experience indicates that they face high risks of failure to boost financial markets and the real economy (Acharya, Eisert, Eufinger & Hirsch, 2019). Consequently, macroeconomic stability weakens (Park, 2023) and this could prove to be very harmful for economies. The use of cryptocurrencies or other forms of digital currencies as reserves in central banks and their adoption as parallel currencies are considered as a potential source of risk for financial stability and growth (Claeys, Demertzis & Efstathiou, 2018) due to their lack of a central authority and backing instruments with high intrinsic value. Notably, stablecoins are believed to be more suitable candidates for displacing the existing forms of money as they owe their stability to the existing major international currencies ensured by the currency board mechanism (Sławiński, 2021).

In order to ensure independence of goal-setting and action taking to achieve them, monetary authorities have set in their mandates price stability as their

primary objective. This serves as a legal shield against political pressures that could lead to lax financial regulation in order to spur loan growth and money circulation. Differently said, the legal framework surrounding central bank mandates provides anchoring of inflation expectations by making crystal clear that no excessive money printing will take place in case of poor fiscal performance. The sequence of recent crises has led to deviations from this strict framework but unconventional monetary measures are considered to have been justified by the great intensity and the high frequency of the latest consecutive crises. The stagflation perspective in a wide array of economies due to the Global Financial Crisis, the Covid-19 health crisis and the geopolitical crisis which is expressed in the form of the Russia-Ukraine conflict has resulted in strong turmoil pressures that made central banks re-consider their fidelity to their mandates and urged them to re-examine the 2% inflation target. The obligation to contribute to the better functioning of the economies considered is dictated in central bank mandates. In the case of the European Central Bank, its mandate conforms to the Treaty on the Functioning of the European Union, Article 127 (1). The Treaty adds that “without prejudice to the objective of price stability”, the ECB shall also support the general economic policies in the EU with a view to contributing to the achievement of the Union’s objectives as laid down in Article 3 of the Treaty on European Union”. The aims indicated have to do with balanced economic growth, a highly competitive social market economy aiming at full employment and social progress, and a high level of protection and improvement of the quality of the environment – without prejudice to the objective of price stability². Moreover, the Treaty states that the European Central Bank should also act for preserving financial stability, in the form of ‘the smooth conduct of policies pursued by the competent authorities relating to the prudential supervision of credit institutions and the stability of the financial system’. The legal framework infusing the ECB’s action taking also dictates that the monetary authorities should abide by the functioning of free competition in an open market economy and should promote the efficient allocation of resources.

3.3. Are stablecoins money, synthetic money, or commodities?

In order to better understand whether stablecoins could act as stabilizers of money value and the economy, in-depth analysis is required about whether they should be classified as money, commodities or synthetic money. Fiat money usually takes the form of paper notes or central bank deposits that could be exchanged for fiat money with no trouble. Such money is very useful for transaction

² <https://www.ecb.europa.eu/mopo/intro/html/index.en.html>

purposes and its main feature is that the nominal value it carries is extremely higher than its fundamental value based on the cost for its construction. So fiat money can be produced by the central bank by relying on the policy of the latter about the quantity of money needed in the economy. Such decision-making should always abide by the central bank's mandate but these decisions are difficult to be judged by non-experts. Thereby, monetary authorities enjoy a broad discretion for framing and implementing monetary policy (Opinion of Advocate General Cruz Villalón, 2015)³.

On the other hand, commodity money is characterized by very small deviations between the nominal value and the fundamental value of money. This type of liquidity is considered to be less eligible for transactions though remarkably more reliable as it infuses the economy with significantly higher levels of credibility. The limited supply of commodity assures high demand for this money as it is also appropriate as a store of value and protected from value losses to which fiat money is vulnerable due to inflationary pressures. The scarcity of commodity money is expressed in terms of its natural abundance and the cost of extracting additional units (Hull and Sattath, 2023).

It is of special interest that a new form of liquidity, which is called 'synthetic commodity money' and shares elements from both fiat and commodity money has emerged (Selgin, 2015). Synthetic commodity money does not have nonmonetary value though it is absolutely scarce. Since the actual resource cost of a given real stock of synthetic commodity money need not be greater than that of a corresponding stock of fiat money, a synthetic commodity standard is exempt from the cost disadvantages of a genuine commodities standard. Its artificial and manufactured scarcity makes it unchangeable even with new technological developments and raw resource discoveries. Since it has no other non-pecuniary applications, there is no fluctuating nonmonetary demand to modify the purchasing power of synthetic commodity money. Finally, unlike real commodity money but not fiat money, the quantity of a synthetic commodity money is not subject to arbitrary or politically motivated fluctuations. Stablecoins are considered to be constituents of this category of money and abide by the macroeconomic stable character required to lead to stable monetary regimes. The innovative character of stablecoins that enables them to avoid susceptibility to political interventions fortifies the potential of them being used as means for controlling inflation and mitigating systemic financial risk.

³ <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX%3A62014CC0062>

4. Economic and legal analysis and implications

4.1. Reserve types and their role regarding stability and credibility

Classification of stablecoins concerning their stability could be made based on the asset(s) by which they are backed (Ito, Mita, Ohsawa & Tanaka, 2020). Therefore, stablecoins based on safe haven assets such as gold, platinum or silver can be regarded as the most reliable type of stablecoins due to the large degree of credibility characterizing precious metals. The second category consists of stablecoins pegged to major international currencies such as the US dollar or the Euro, which follow in terms of trustworthiness and are considered to be efficient hedges against systemic risk and financial fragility (but by a lower extent than stablecoins backed by precious metals). The third category of stablecoins is made up of those based on national currencies of rising or developing economies. The Russian ruble, the Chinese yuan, the Mexican peso and the South African rand are characteristic examples of currencies serving for backing value. Despite their non-negligible role in performing worldwide transactions, these fiat currencies are believed to be volatile due to the pressures for large fluctuations in their values and the economic, political, and geopolitical unsteadiness appearing in their countries of origin. Consequently, stablecoins pegged to them cannot enjoy the desired levels of reliability that a 'legal tender' and generally-accepted form of liquidity would require. Finally, there are stablecoins pegged to other cryptocurrencies, either well-known which enjoy high capitalization like Bitcoin and Ether or small-cap or 'environmentally-friendly' cryptocurrencies. This group of stablecoins can with little doubt be categorized as the riskiest one due to the frequent and large fluctuations of market values of the digital assets they rely on.

Stability constitutes a *sine-qua-non* for assuring the necessary credibility that monetary policymakers, i.e. central banks, need for being reliable and utilizing effectively the signalling and the confidence channels of monetary policy. These channels' functioning could spur growth through influencing expectations and the investor sentiment of economic agents. Bearing in mind that the efficacy of monetary policymaking and anti-inflationary measures is rooted in the independence and credibility of central banks, the legal framework should be formed in a way that the issuance and the 'legal tender' character that stablecoins could potentially acquire would not lead to mutating the monetary authorities' mandates. These mandates state that a considerable level of Gross Domestic Product (GDP) growth (e.g. 4% in the Eurozone) should be achieved each year along with modest levels of inflation (not exceeding 2% per annum) Cecchetti and Wynne,

2003; Benigno, Canofari, Di Bartolomeo & Messori, 2023). Incorporating specific stablecoins in the money supply measures (broadly defined as M3) as alternative forms of liquidity would render the circulation of stablecoins measurable though not as controllable as desired. The weakening of instability disadvantages would require fortifying the reserves on which these stablecoins would be based for the purposes of infusing stability and credibility in their markets. Therefore, stablecoins based on precious metals would highly probably face lower volatility and opacity than stablecoins based on opaque and less credible cryptocurrencies.

4.2. The regulatory obstacles for stablecoins

The regulatory framework inhibiting all stablecoins adopted as substitutes for fiat national currencies should aim at battling the existence of insufficient, risky, non-liquid and non-credible reserves that serve for backing stablecoins. Central banks are likely to introduce CBDCs and authorize stablecoin issuance in order to achieve efficient monetary policies and risk management (Wong et al., 2025). There is, however, a range of problems brought about concerning the regulation of stablecoins. One of the most prominent obstacles is the need for a large spectrum of national regulatory frameworks to be combined and a consensus to be reached about the formation of a common regulatory framework with a global character. The sources and dynamics of regulatory convergence and divergence as regards stablecoins are diverse (Martino, 2025). Eligibility for imposition of this framework on internationally-accepted money like stablecoins would be a prerequisite for the success of such a ground-breaking achievement if it was to be realized. Another drawback of a plan to use stablecoins to counter inflationary pressures is that these stablecoins should indispensably be characterized by -at least to some extent- stable exchange rates with the assets backing them (Zhu, 2023). So regulation should impose nearly fixed rates, e.g. between a stablecoin and the national currency on which the reserves backing this stablecoin would be denominated. This would serve for ensuring the efficient functioning of this digital asset as a store of value. Such a requirement though would need all national currencies to have fixed exchange rates among them so that the convertibility ratios among stablecoins expressed in alternative national currencies would not be altered and would be shielded against exchange rate fluctuations. Notably though, this would require financial regulatory harmonization between all monetary authorities, which is practically impossible due to the special characteristics, conditions and threats that individual economies face.

This task is even more strenuous when inflationary pressures that usually feed speculative motives through arbitrage evoke. Thus, solving the problem would

first require that the problem itself be resolved beforehand. This sounds rather atopic. The utopic character of this scenario is emphasized by the rich spectrum of uncertainties afflicting modern economies and their national currency values, ranging from economic uncertainties to geopolitical or climate policy uncertainties. These multi-sourced and proliferating -in number and size- levels of instability fertilize the ground for excessively strict law-making that would probably lead to lower eligibility in economic and financial activity. The restrictive legal framework would suppress the flexibility that new forms of liquidity and investment (such as stablecoins) could contribute to nourishing a much larger pool of money for funding investments.

5. Conclusion

Notably, a lax legal framework concerning the collateral for digital liquidity could pave the way towards remarkably lower ability of central banks to drive monetary economics and control price alterations. This would happen as both the multiple and non-stable units of account and the potential for great value decreases in money used as store of value would be able to contribute no more than a very short-lived financial revival that would rapidly transform into burdensome financial instability. The unsteadiness that globally-accepted stablecoins could trigger could only be battled if national currencies were to be abolished and national regulatory frameworks could be combined to form a new legal framework for monetary economics. So cross-jurisdictional regulatory compliance would be necessary but far from easily achievable.

This regulatory landscape would be in the steps of the Eurozone's legal framework, which has been aiming to preserve stability and resist inflationary pressures for more than two decades after its establishment. Forming a global monetary union could fertilize the ground for currencies such as stablecoins to become 'legal tender' and co-exist with official national currencies. Taking into consideration though that the Eurozone still has a long way to go for becoming a banking union as well and the perspective for becoming a fiscal union is still a chimera, it can be argued that discretionary monetary policymaking independently for each central bank would be preferable for fighting inflationary phenomena in comparison to the adoption and use of hard-to-regulate global currencies such as stablecoins. Should nations become united in the future in terms of civilization, mentality and action taking, then stablecoins would be rendered more appropriate for fighting price increases stemming from conventional fiat money in a viable manner.

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