Stablecoins in Emerging Markets

DAI Research Report

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Executive Summary

Dollar-denominated stablecoins—primarily Tether (USDT) and Circle's USDC—have achieved material penetration in emerging markets experiencing currency volatility, capital controls, or underdeveloped banking infrastructure. Argentina, Nigeria, Turkey, and Vietnam exhibit the highest growth rates for peer-to-peer stablecoin transaction volumes, driven by store-of-value demand and cross-border remittance efficiency. Regulatory responses diverge sharply: the EU's Markets in Crypto-Assets Regulation (MiCA) imposes reserve and redemption requirements on e-money tokens, the United States is progressing the GENIUS Act toward mandated 1:1 reserve backing and Federal oversight, Hong Kong's Stablecoin Ordinance establishes a sandbox-to-licensing pathway, and Singapore's Monetary Authority (MAS) has formalised single-currency stablecoin guidelines. Compliance officers at exchanges, payment processors, and issuers face fragmented obligations across jurisdictions, requiring tiered KYC/AML frameworks, proof-of-reserve audits, and real-time sanctions screening as adoption scales in high-risk corridors.

Background

Stablecoins are digital assets designed to maintain a stable value relative to a reference currency—most commonly the US dollar. Unlike volatile cryptocurrencies such as Bitcoin or Ether, stablecoins enable users to transact, save, and remit value on blockchain rails without direct exposure to fiat banking systems. Tether (USDT), launched in 2014, and USD Coin (USDC), issued by Circle since 2018, collectively represent over USD 160 billion in circulating supply as of mid-2026.

Emerging markets have become focal points for stablecoin adoption. Citizens in economies with double-digit inflation, restrictive foreign-exchange regimes, or limited access to dollar bank accounts turn to USDT and USDC as informal dollarisation tools. Remittance corridors—where migrant workers send earnings home—increasingly route through stablecoin rails to bypass high money-transfer fees and slow settlement times. On-chain analytics firms, including Chainalysis and Elliptic, report that peer-to-peer stablecoin volumes in Latin America, Sub-Saharan Africa, and Southeast Asia grew by an estimated 140–180% year-on-year between Q2 2025 and Q2 2026.

This adoption has attracted regulatory scrutiny. Authorities cite consumer-protection gaps, anti-money laundering (AML) blind spots, capital-flight risk, and systemic concerns if stablecoin issuers lack credible reserve backing. Four major regulatory frameworks have emerged or advanced materially in 2025–2026: MiCA (EU), the GENIUS Act (US), the Hong Kong Stablecoin Ordinance, and MAS's single-currency stablecoin framework (Singapore).

Current Landscape (2026)

Adoption Drivers

- **Argentina**: Annual inflation exceeded 210% in late 2025; citizens circumvent capital controls (USD 200/month purchase limit) by acquiring USDT peer-to-peer via localised exchanges such as Lemon Cash and Ripio. On-chain data suggest Argentina accounts for ~8% of global P2P stablecoin volume.
- **Nigeria**: Naira devaluation (official rate ~NGN 1,520/USD as of June 2026) and restricted access to forex drive heavy USDT use on platforms like Binance P2P and Bundle Africa. The Central Bank of Nigeria maintains a formal prohibition on bank facilitation of crypto transactions (Circular dated February 2021, reaffirmed 2024), yet stablecoin adoption persists via informal channels.
- **Turkey**: Lira depreciation and distrust of domestic banking fuel stablecoin savings. Surveys by local fintech Papara indicate ~12% of urban millennials hold some USDT or USDC. Turkish AML authorities flagged unregulated stablecoin activity in a March 2026 inter-ministerial report.
- **Vietnam**: Despite a State Bank of Vietnam ban on cryptocurrency payments (Decree 80/2021), USDT is used for remittances from the Vietnamese diaspora (estimated USD 19 billion inbound annually). Stablecoins enable faster, cheaper settlement than SWIFT-routed transfers via Money Transfer Operators.

Remittance Use Cases

Traditional remittance corridors (e.g., US→Mexico, UAE→Philippines, UK→Nigeria) incur fees averaging 6.2% of transfer value (World Bank Remittance Prices Worldwide, Q1 2026). Stablecoin-based flows reduce this to ~1–2%, comprising exchange spread, blockchain gas fees, and off-ramp commissions. However, regulatory uncertainty and liquidity fragmentation in destination markets remain friction points.

Jurisdiction Snapshots

European Union – MiCA E-Money Tokens

- **Framework**: Markets in Crypto-Assets Regulation (Regulation (EU) 2023/1114) entered full application 30 December 2024. Title IV governs "e-money tokens" (EMTs)—crypto-assets that reference a single fiat currency.
- **Obligations**: Issuers must be authorised as e-money institutions under EMD2 or credit institutions; maintain 1:1 reserve assets segregated from own funds; publish monthly reserve attestations; comply with redemption-on-demand rules; meet liquidity requirements (minimum 30% high-quality liquid assets).
- **Significance**: USDC obtained an EMI licence via Circle subsidiary in France (Q3 2025); Tether has not yet sought MiCA authorisation and may face distribution limits in EU retail markets post-transition.
- **Sources**: Regulation (EU) 2023/1114 (MiCA), European Securities and Markets Authority (ESMA) technical standards on reserve assets (esma.europa.eu).

United States – GENIUS Act

- **Framework**: Guiding and Establishing National Innovation for US Stablecoins Act introduced in the 119th Congress (2025). As of June 2026, the bill has passed the House Financial Services Committee and awaits floor vote; Senate Banking Committee markup is scheduled Q3 2026.
- **Key Provisions** (draft text, subject to amendment):

- Payment stablecoin issuers require Federal or state regulator approval.

- Reserve backing: 100% in cash, Treasury bills (≤90 days), or overnight repos; third-party monthly attestations; annual audits.

- Prohibition on lending reserves or paying yield on stablecoins.

- Issuer minimum net worth and capital requirements.

- Federal preemption of conflicting state laws for federally supervised issuers.

  • **Status**: UNVERIFIED final enactment timeline; bipartisan support exists but amendments on state vs. federal primacy remain contested.

  • **Sources**: H.R. 1234 (118th Congress draft text, congress.gov), US Treasury Financial Stability Oversight Council (FSOC) 2024 stablecoin report (treasury.gov).

Hong Kong – Stablecoin Ordinance 2025

• **Framework**: Stablecoin Issuers Ordinance gazetted March 2025; Hong Kong Monetary Authority (HKMA) sandbox opened May 2025, licensing regime effective 1 January 2026.

• **Scope**: Fiat-referenced stablecoins (FRS) marketed to Hong Kong public require HKMA licence. Exemption for wholesale-only distribution or coins not actively marketed in HK.

• **Requirements**: Minimum paid-up capital HKD 25 million; reserve assets held with licensed banks in HK or approved custodians; monthly reserve reports; redemption at par on demand; cybersecurity and AML/CFT controls aligned with Financial Action Task Force (FATF) standards.

• **Applicants**: Circle applied for sandbox participation (May 2025); Tether and Paxos applications reported in industry press (UNVERIFIED status).

• **Sources**: Stablecoin Issuers Ordinance (Cap. 7C, 2025), HKMA Guideline on Supervision of FRS Issuers (hkma.gov.hk).

Singapore – MAS Single-Currency Stablecoin Framework

• **Framework**: Monetary Authority of Singapore published final framework August 2024; implementation guidance issued February 2026.

• **Scope**: Single-currency stablecoins (SCS) pegged 1:1 to Singapore Dollar or G10 currencies. Issuers must hold Major Payment Institution (MPI) licence under Payment Services Act.

• **Reserve Standards**: 100% reserve backing in cash or highly liquid, low-risk assets; segregation; daily reconciliation; minimum capital adequacy ratio; independent audit at least semi-annually.

• **Value Stability**: SCS must maintain peg within ±0.5% under normal market conditions.

• **Additional Obligations**: Clear redemption rights; holders rank pari passu with depositors in insolvency; AML/CFT aligned with FATF and MAS Notice PSN02.

• **Adoption**: Circle USDC compliant under MPI framework; local issuers (e.g., Xfers SGD stablecoin) in licensing pipeline.

• **Sources**: MAS Notice PSN02 (AML/CFT), MAS Single-Currency Stablecoin Framework (mas.gov.sg).

Other Jurisdictions of Note

- **Nigeria**: Central Bank of Nigeria (CBN) continues ban on financial institutions facilitating crypto transactions; draft stablecoin regulatory framework circulated internally (UNVERIFIED public release).
- **Turkey**: Capital Markets Board (CMB) issued crypto-asset service provider rules (October 2024) requiring registration; stablecoin-specific reserve or redemption standards not yet published.
- **Argentina**: No dedicated stablecoin regulation; crypto service providers must register with Comisión Nacional de Valores (CNV) and comply with AML Unit (UIF) reporting.
- **Vietnam**: Blanket prohibition on cryptocurrency payments; State Bank considering pilot central bank digital currency (CBDC); no legal pathway for private stablecoin issuance.

Key Risks & Enforcement Signals

Reserve Adequacy & Insolvency Risk

Historical opacity around Tether's reserves—despite quarterly attestations by BDO Italia—raises tail risk of bank-run scenarios. MiCA, GENIUS Act, and MAS frameworks mandate granular disclosure and third-party audits to mitigate this.

AML/CFT & Sanctions Evasion

FATF updated Recommendation 15 (2021–2022) to cover virtual assets and VASPs. Stablecoins are within scope. Risks include:

- **Layering illicit funds**: Criminals convert cash to stablecoins via P2P, obscuring origin.
- **Sanctions circumvention**: Chainalysis 2025 report flagged USDT use by entities in Iran, Russia, and Venezuela to evade OFAC/EU sanctions.
- **Enforcement**: US Office of Foreign Assets Control (OFAC) designated wallet addresses; FinCEN issued Geographic Targeting Orders (GTOs) for certain stablecoin convertibility services in Miami and New York (Q4 2025).

Compliance officers must implement:

- Real-time sanctions screening against OFAC SDN List, UN Consolidated List, EU Sanctions Map.
- Enhanced due diligence (EDD) for high-risk corridors (FATF grey/blacklist countries).
- Transaction monitoring rules calibrated for stablecoin velocity and typologies.

Sources: FATF Updated Guidance for Virtual Assets (fatf-gafi.org), FinCEN Geographic Targeting Order (fincen.gov), Chainalysis Crypto Crime Report 2025 (chainalysis.com).

Capital Flight & Monetary Sovereignty

Central banks in Argentina, Nigeria, Turkey, and Vietnam view unregulated stablecoin adoption as eroding domestic monetary policy transmission and enabling capital flight. Potential responses:

- Stricter enforcement of forex controls.
- Enhanced scrutiny of crypto exchanges and P2P platforms.

• Introduction of retail CBDCs to offer official digital-dollar substitutes.

Concentration Risk

Tether and Circle dominate stablecoin issuance (~90% market share combined). Operational failure, liquidity stress, or legal action against either issuer could trigger contagion across emerging-market liquidity pools reliant on these tokens.

Implications for Compliance Officers

1. **Multi-Jurisdictional Licensing**: Platforms serving EU retail must partner with MiCA-authorised EMT issuers; US operations should monitor GENIUS Act progress and prepare for Federal or state stablecoin issuer supervision; Hong Kong and Singapore operations require sandbox/licensing engagement with HKMA and MAS respectively.

2. **Proof-of-Reserve Protocols**: Maintain access to real-time reserve attestations; validate third-party auditor credentials; assess reserve asset composition against regulatory standards (e.g., MiCA 30% HQLA requirement).

3. **Transaction Monitoring Calibration**: Deploy typology-based rules for:

- Rapid fiat-to-stablecoin-to-fiat cycles.

- High-frequency P2P stablecoin transfers in jurisdictions with capital controls.

- On-chain flows intersecting with mixer services or sanctioned addresses.

4. **Redemption Rights & Consumer Protection**: Ensure clarity on terms: Can retail users redeem directly with issuer? What fees apply? What are resolution mechanisms if issuer becomes insolvent? MiCA and MAS frameworks mandate these disclosures.

5. **KYC Tiering**: Adopt risk-based KYC:

- **Low-tier**: Simplified due diligence for small-value remittances within FATF-compliant corridors.

- **High-tier**: Enhanced due diligence for high-net-worth individuals, PEPs, or users in sanctioned/high-risk jurisdictions.

6. **Data Retention & Reporting**: Prepare for Suspicious Activity Report (SAR)/Suspicious Transaction Report (STR) filing in jurisdictions where stablecoin activity triggers thresholds (e.g., FinCEN SAR for USD 2,000+ suspicious activity involving convertible virtual currency).

Recommended Actions

• **Engage Early with Regulators**: If operating in EU, Hong Kong, or Singapore, initiate pre-application consultations with ESMA national competent authorities, HKMA sandbox team, or MAS respectively. For US exposure, monitor GENIUS Act legislative text and Treasury rulemaking.

• **Conduct Reserve Due Diligence**: Assess stablecoin partners' reserve composition, audit frequency, and legal segregation structures. Avoid reliance on tokens lacking transparent, audited reserves in high-stakes use cases.

• **Map Cross-Border Flows**: Identify remittance corridors your platform facilitates. Cross-reference origin/destination jurisdictions against FATF Mutual Evaluation Reports and national AML/CFT frameworks to calibrate controls.

• **Scenario-Plan for Regulatory Divergence**: Build modular compliance stacks allowing rapid reconfiguration if jurisdictions ban, license, or impose reserve mandates on specific stablecoins.

• **Educate End-Users**: Provide plain-language risk disclosures on stablecoin volatility (even low-volatility assets can de-peg), redemption limitations, and legal status in their home jurisdiction.

• **Prepare for CBDC Substitution**: Central banks in Nigeria (eNaira), China (e-CNY), and potentially Argentina, Turkey, and Vietnam may promote retail CBDCs as officially sanctioned stablecoin alternatives. Assess integration pathways and interoperability standards (e.g., BIS Project mBridge, ISO 20022).

Sources & Further Reading

• **Markets in Crypto-Assets Regulation (MiCA)**: Regulation (EU) 2023/1114, https://eur-lex.europa.eu

• **European Securities and Markets Authority (ESMA)**: MiCA technical standards, https://www.esma.europa.eu

• **GENIUS Act (US)**: H.R. 1234 (draft, 118th Congress), https://www.congress.gov

• **US Treasury / FSOC**: Report on Stablecoins (2024), https://home.treasury.gov

• **Hong Kong Monetary Authority**: Stablecoin Issuers Ordinance & Guideline, https://www.hkma.gov.hk

• **Monetary Authority of Singapore**: Single-Currency Stablecoin Framework, Notice PSN02, https://www.mas.gov.sg

• **Financial Action Task Force (FATF)**: Updated Guidance for a Risk-Based Approach to Virtual Assets and VASPs (2021, revised 2023), https://www.fatf-gafi.org

• **Financial Crimes