Strategic crypto reserves: A new era for crypto currency regulation and central bank digital currencies?

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ABSTRACT

The executive order signed by President Donald J Trump on the 6th March 2025, which establishes a U.S crypto currency reserve, "creates a Strategic Bitcoin Reserve that will treat bitcoin as a reserve asset."

Whilst there are enthusiasts in favor of the recent move, there are also concerns about how it will be implemented – as well as implications for taxpayers in the event of a collapse in prices. Concerns are consolidated further, primarily because there are several Bills still being considered in Congress – compounded with recent developments and turbulence in the crypto assets sector. Further concerns, primarily relate to governmental and political interference with the central bank's role in monetary policy setting and, regulatory uncertainties.

This paper considers, as well as highlights, why the central bank's independence is pivotal to its functions. Whilst close collaboration with the executive, and the legislature, are also essential to its functioning, the section also highlights the immense contributions that can be derived from crypto currencies and stable coins – when adequately regulated. The third section then considers main issues to be addressed. This will be followed by a conclusive section.

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Dr Marianne Ojo

Introduction

The use of unconventional monetary tools, and particularly the resort by central banks to asset purchase programs instigated as a means of addressing prolonged periods of low inflation, has not only heralded times during which new and innovative approaches to regulation can be expected, but also highlights the significance of a growing acknowledgement that changes in financial instruments, payment systems and trading platforms are significantly altering the financial landscape and also the need for monetary policies to adopt more accommodative approaches to regulation since traditional tools and inflation targeting mechanisms are not as relevant as they used to be - particularly against the backdrop of the impact of crypto currencies and the need to ensure that financial stability can be guaranteed where such assets, which have great potential to trigger systemically relevant risks, and more specifically, stable coins which are backed by a basket of commodities or government bonds, are in operation.

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Whilst there are enthusiasts in favor of the recent move, there are also concerns about how it will be implemented – as well as implications for taxpayers in the event of a collapse in prices. Concerns are consolidated further, primarily because there are ongoing bills still being considered in Congress – compounded with recent developments and turbulence in the crypto assets sector.

As highlighted by Kumar (2025), "One of the major disagreements between the crypto industry and legislators, has been whether the SEC or the Commodities Future Trading Commission (CFTC), is the right regulator for crypto – given ongoing debates regarding whether the crypto is a security or a commodity. The Bills being currently considered in Congress (see Atlantic Council, 2025) include: The Financial Innovation and Technology for the 21st Century Act (FIT21 Act), the Digital Asset Market Structure and Investor Protection Act, the Responsible Financial Innovation Act, and the BRIDGE Digital Assets Act.

Recent challenges faced within the crypto market sector are extensively and widely documented in the literature. According to the Bank for International Settlements (BIS, 2023), in 2022 and early 2023, crypto markets were volatile – with early May 2022 being evidenced by failure of various crypto asset providers, including Terra (USD's) unbacked stable coin. November 2022 witnessed the collapse of FTX, "one of the largest crypto trading platforms".

In response to such developments, monitoring efforts by central banks and international standard setting bodies, were accelerated – with the Financial Stability Board (FSB) publishing a proposed framework for international regulation of crypto asset activities in October 2022, and in December of the same year, the

Basel Committee on Banking Supervision (BCBS), issuing a prudential standard for the treatment of banks' exposures to crypto assets (BIS, 2023).

Further concerns, primarily relate to governmental and political interference with the central bank's role in monetary policy setting and, regulatory uncertainties. The next section will consider – as well as highlight, why the central bank's independence is pivotal to its functions. Whilst close collaboration with the government is also essential to its functioning, the section also highlights the immense contributions that can be derived from crypto currencies and stable coins – when adequately regulated. The third section then considers main issues to be addressed. This will be followed by a conclusive section.

Central Bank Independence: Concepts and Definitions

"Central bank independence is not an end in itself. Its purpose is to ensure that the central bank is credible in its pursuit of price stability while making sure that monetary policy is never subservient to fiscal policy - what is known as monetary dominance. Central bank independence does not preclude communication with governments when it is clear that mutually aligned policies would deliver a faster return to price stability It only imposes limits on what such alignment could entail. Specifically, it means that alignment between policies where needed must serve the objective of monetary stability and not work to its detriment. " (Draghi: 2019)

From the above mentioned definition, the following points can be drawn:

Firstly, it can be inferred that central bank independence should serve as a tool in ensuring that the over-arching goal of price stability- a fundamental objective of monetary policy, is achieved.

Secondly, that central bank independence should be adopted in such a way which whilst ensuring that the central bank is "credible in its pursuit of price stability" also does so in a manner which does not make monetary policy "subservient " to, or superseded by fiscal policies.

Thirdly, as fiscal policy is considered a tool whereby the goal of price stability is achieved, this implies communication between governments - in particular, where mutually aligned policies would clearly facilitate, more effectively a favorable outcome for price stability.

Finally, necessary checks should operate to ensure that alignment between fiscal and monetary policies are restricted and permitted to the extent necessary to ensure that when undertaken, this should be done when and where needed - and ultimately working to the benefit of monetary policy - not against it.

Whereas there are potential benefits to be attributed to stable coins and digital currencies – in the sense that they offer greater ease and convenience in payments – as well as facilitate speedier processes – particularly with e commerce transactions, the need for privacy and protection of data – as well as adequate monitoring procedures to ensure that platforms where such transactions are undertaken are not prone to cybersecurity related risks – coupled with control and governance measures, constitute the fore of regulatory and supervisory concerns. Such concerns, in addition to eventual dominance by private actors, as well as possibilities that certain digital currencies could dominate and overshadow sovereign currencies of jurisdictions in which the use of digital currencies becomes a “dollarized” means or alternative for payments, contribute to the impetus being taken by many central banks for considerations in the issue of central bank digital currencies.

Main Issues to be addressed

Global stable coins (GSCs) are considered to present "significant adverse effects " domestically and internationally in terms of monetary policy - as well as financial stability. " Further, their challenges to cross jurisdictional efforts to combat money laundering and terrorist financing presents further issues for international monetary systems- with implications for monetary sovereignty.

In accentuating the potential effects and impacts of stable coins, the following have been observed (Brainard, 2019:8):

1) Widespread adoption of stable coins could have implications for the role of central banks and monetary policy.

2) The central bank's approach to implementing monetary policy may be complicated to the extent that bank's participation in short term funding markets is affected.

Reference is made to open economies and their susceptibility to a payments system impacted by digital currencies that are controlled by private actors - in which case it is highlighted that Sweden, along with countries like Australia, New Zealand, Canada and Norway, fall within a category of countries - a group of small open economies with floating exchange rates and inflation targets which experience relatively similar challenges and problems (Ingves, 2019: 2). It is further added:

Transparency is thus strongly advocated between global trading blocs - not only in respect of the need for a fairer and more competitive playing field, but also in view of systemic repercussions from global stable coins - particularly in respect of the vulnerability of small open economies.

Brainard also re iterates on the vulnerability of small open economies - consolidating on his observations that banks' participation in short term funding markets are affected (thus complicating central bank's approach to implementing monetary policy) by adding that such effects were more significant for small open economies or those with weak monetary institutions where "migration from sovereign currency to global stable coins with commercial bank money or central bank coins could weaken the scope for independent monetary policy through a process that is the digital analogue of dollarization." Thus implying that they couldn't be used as trustworthy stores of value (Brainard 2019: 8).

Questions that have been brought to light center round whether central banks considering the issue of digital currencies should also assign interest rates to such currencies - as well as conditions and factors which would impact such currencies. Would those rates be more flexible and volatile than the previous floating exchange and inflation targeting rates?

Why should governments back stable coins which have the potential to trigger risks of systemic nature, relevance and importance where there were options to support their central banks with much needed stability? Why should governments back private actors engaged in crypto assets and global stable coins' issue where regulatory, legal uncertainty, sound governance and public policy issues - amongst several other challenges still needed to be resolved?

Why not render support to, and consolidate on the measures, mechanisms and existing mechanisms available to central banks?

Governments can be criticized for engaging in purely politically motivated and political interests where regulatory safeguards appear to be overlooked as a means of endorsing certain actors which may ultimately benefit their political interests. Certain actors, by virtue of their national values, as well as their significance, relevance, and impact on stock markets, may be accorded preferential treatment - a kind of "too big to fail institution ". However, providing assistance and support to prevent a systemic failure does not necessarily infer that license is permitted to carry on with unregulated activities. This is precisely why moral hazard issues arise - sometimes politically motivated interests may end up undermining central bank stability mandates.

Which is why the engagement of accommodative unconventional and conventional monetary policies does not necessarily undermine central bank independence. Sometimes asset backed government programs do not compromise independence - rather it is the support of governments for unregulated untested ventures which have potentially devastating systemic consequences that poses serious matters of concern.

It is welcomed that the Financial Stability Board is currently engaged in initiatives aimed at considering the regulatory issues of stable coins.

Strategic Crypto Reserves

Main issues

As well as political and regulatory issues which revolve around the use of stable coins and crypto currencies, the following concerns relate to recent moves to incorporate crypto currencies into strategic reserves.

- Regulatory uncertainties : There are arguments that crypto currencies have different risk profiles, contribute to uncertainty in long term in respect of economic strategy - unlike traditional gold reserves.

- Concerns over governmental and political interference in matters of monetary policy and decision making.

According to Forbes (2025), "by incorporating these digital assets into a strategic reserve, the United States is positioning itself as a leader in financial innovation, recognizing the role crypto currencies will play in shaping the future of global trade, investment, and technology. "

It is also added that the following attributes of choice of specific crypto currencies for inclusion in the reserve, " represents a key aspect of the digital economy" (Forbes, 2025):

- Bitcoin: Being the original and most widely recognised crypto currency – also given its fixed supply and decentralised nature – which has made it a safe haven in similar respects with gold.

- Ethereum: The features of ethereum being "its small contracts which facilitate decentralised applications that could transform industries from finance to real estate "

- XRP: Its potential to serve as a replacement for outdated and expensive remittance systems

- Cardano (ADA): Its capability of "providing a scalable and sustainable blockchain ecosystem with real world applications in identity management, finance and governance.

Despite Trump's remarks that a U.S Crypto Reserve will "elevate this critical industry after years of corrupt attacks…….", there are concerns about recent performances of the aforementioned crypto currencies (Financial Times, 2025a):

- Bitcoin liquidity: Which is noted as deteriorating in performance. It is further added that "even though the combined power of the publicly listed mining companies mints about 100 of the 450 new bitcoins produced daily ", that this is not improving liquidity.

Given the arguments in favor of – as well as those concerns raised by recent events, namely the establishment of the Strategic Bitcoin Reserve, should there be cause for alarm – particularly given other global developments and tariff hikes?

Conclusion

As highlighted in the introductory section, whilst there are enthusiasts in favour of the move to incorporate digital assets into a strategic reserve, there are also concerns about how it will be implemented – as well as implications for taxpayers in the event of a collapse in prices. The recent announcements have also prompted a flock of investors to safe haven assets of more traditional havens like gold reserves. Even though the potential benefits of crypto currencies and digital assets are evident, further hurdles with legislation, monitoring efforts – as well as determining whether or not crypto assets are securities or commodities, need to be clarified, defined and concluded, to safeguard investors – as well as monetary and regulatory functions. As well as other legislation already highlighted in the paper, other ongoing bills being considered by legislature include the Clarity for Payment Stable coins Act of 2023, Bitcoin Act of 2024, and the CBDC Anti Surveillance State Act.

It will be interesting to see how the Trump administration can make Bitcoin useful and more productive – and whether a new era of crypto currency is about to begin. These are indeed exciting – as well as uncertain times – however, it appears that work being undertaken by legislators, is aimed at ensuring smooth transition to the crypto currency era. Further, global harmonisation between international standards will be required to facilitate the process and ensure that no divergences exist – particularly between U.S and E.U regulatory frameworks.

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