Africa's Stablecoin Paradox?

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"The creation of stablecoins, especially the dollar stablecoins, is being used to undermine African currencies."

Lesetja Kganyago, Governor of the South African Reserve Bank[1]

"There is a digital revolution underway. Many are bypassing banks to make payments. They've turned to stablecoins and digital currencies."

Bola Ahmed Tinubu, President of Nigeria[2]

The economic literature has extensively examined the real and hypothetical effects of private digital currencies on macroeconomic conditions.[3] However, the political implications of digital currencies are still being understood, and across Africa digital currencies are subject to heightened adoption and increased scholarly attention.[4] In Nigeria, South Africa, Ghana, and Kenya, individuals and organisations are increasingly using stablecoins (tokenised assets pegged 1:1 to the US dollar) in daily economic life.[5] If the trend continues, it could lead to a situation in which widespread adoption may erode the foundations of national monetary sovereignty.[6] As understood within this essay, monetary sovereignty refers to a state's legally recognised authority to regulate its monetary and financial system, historically grounded in the right to issue and control its currency.[7] Crucially, sovereign monetary authority is only as effective as the trust placed in the state's fiscal and monetary institutions. This essay proceeds from the premise that digital currencies pose a challenge to monetary sovereignty and examines the resulting tension from a geoeconomic perspective. The same features that make stablecoins attractive to individuals can, at scale, weaken the institutional arrangements that sustain domestic economic life, while simultaneously reproducing existing global monetary hierarchies. The digital currency paradox is therefore structural at both the domestic and international levels, arising where less centralised, and politically ambitious financial systems intersect with domestic monetary institutions that depend on control over the national unit of account.

In their idealised form, stablecoins replicate the power of the US dollar without moving the underlying asset, which is tokenised and transmitted across borders via blockchain rails. The most popular stablecoins, USDT and USDC issued by Tether and Circle Internet Financial respectively, have a combined market capitalisation of roughly $290 billion as of March 2026.[8] The reserves backing these stablecoins are typically held in US banks and Treasury bills.[9] Additionally, the digital infrastructure enabling this process operates entirely outside national jurisdictions, rendering traditional capital

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controls ineffective. In practice, only outright bans can seemingly curb their use, and in most African countries, such restrictions remain in place.[10]

Popular optimism surrounds the potential of stablecoins to lower remittance costs and broaden financial access in Africa.[11] There is a clear fear, however, that such individual gains come with collective losses in oversight which, in turn, damages the public finances and monetary stability of states.[12] In some cases, central banks have started to respond. Nigeria's central bank unveiled its own digital currency, the eNaira, and a naira-denominated stablecoin, cNGN, in attempts to reclaim part of this digital terrain.[13] Other states are exploring local-currency stablecoins as they seek to balance the efficiency gains of tokenised money with the demands of macroprudential stability. None, however, has matched the credibility or convenience of dollar-denominated tokens. Even issuers of hard currency, such as the European Central Bank, acknowledge the difficulties in competing with global demand for dollar-denominated stablecoins.[14]

The rise of digital currencies in Africa reflects converging forces. The continent's historical reliance on external monetary anchors and the continuing search for credible stores of value in many countries provide one set of pressures. At the same time, US efforts to digitise its exorbitant privilege through the global spread of dollar-backed stablecoins have made the issue more urgent.[15] The stablecoin paradox is ultimately a story of global geoeconomics and local coordination between respective stakeholders.

This essay examines that paradox in four parts. The first section sets out the case for a new research agenda for stablecoins, arguing that the more consequential questions lie in the implications of adoption rather than its explanation. The second section analyses the geoeconomic dimension of Africa's digital currency paradox by focusing on the rise of digital dollarisation and its potential impact, assuming the monetary sovereignty risk. The third section examines the local dimension of the paradox as a coordination problem, considering how incentives can align private stability with institutional resilience. The fourth section concludes.

A Geoeconomics Research Agenda for Stablecoins

The dominant frame in the literature on digital asset adoption in Africa is monetary dysfunction. The intuition is often stated casually, with the claim that where inflation is high and domestic currencies are unreliable, citizens substitute into digital dollars. Despite being treated as self-evident, the relationship between inflation and stablecoin adoption is rarely subjected to sustained empirical scrutiny. Consequently, both policy and scholarly debates tend to focus on the drivers of adoption rather than its consequences. This essay begins by questioning that frame directly.

To assess the inflation–adoption relationship, panel data on crypto adoption scores derived from the Chainalysis Global Crypto Adoption Index are matched against World Bank headline inflation data, official exchange rate data, internet penetration, and GDP per capita across 35 African countries from 2021 to 2024. Six specifications are estimated: pooled OLS, country fixed effects, and two-way fixed effects, in both levels and log inflation, with CR1 country-clustered standard errors throughout (Table

1). Log inflation is the preferred specification: African inflation distributions are heavily right-skewed, and the behavioural effect of a proportional change in inflation is more plausible than an additive one. A bivariate robustness check replicating the original single-variable specification on the full 37-country sample is reported in Table 2.

The pooled specifications produce a positive and significant coefficient on log inflation, consistent with the standard intuition. This relationship weakens once country fixed effects are introduced and disappears entirely in two-way fixed effects. With both country and year effects included, the coefficient on log inflation becomes statistically indistinguishable from zero, and none of the four regressors, inflation, exchange rate depreciation, internet penetration, or log GDP per capita, achieves significance at conventional levels. The observed cross-sectional correlation therefore reflects a between-country pattern rather than a causal within-country effect. It captures a cluster of structural characteristics such as monetary fragility, limited banking penetration, and large informal economies that jointly generate persistent inflation and demand for alternatives to the domestic financial system. The bivariate robustness results in Table 2 confirm this pattern, with positive significance in pooled and country fixed effects log specifications and a complete collapse in two-way fixed effects.

Table 1: Panel Regression of Crypto Adoption Score on Inflation and Controls, African Countries, 2021–2024

	M1 Pooled OLS (log infl.)	M2 Country FE (log infl.)	M3 Two-Way FE (log infl.)
β (Log Inflation)	$+0.0555^{***}$	$+0.0345^{*}$	$+0.0091$
[SE]	(0.0159)	(0.0186)	(0.0230)
FX Depreciation	-0.0001	$+0.0003^{**}$	-0.0000
[SE]	(0.0002)	(0.0001)	(0.0001)
Internet (%)	$+0.0059^{***}$	$+0.0470^{***}$	-0.0192
[SE]	(0.0023)	(0.0090)	(0.0173)
log(GDP per capita)	-0.1357^{**}	$+0.1293$	-0.1905
[SE]	(0.0530)	(0.2140)	(0.1399)
α (Constant)	$+1.0007^{***}$	− − −	− − −
[SE]	(0.3191)		
R^2	0.108	0.304	0.045
Adjusted R^2	0.077	0.168	−0.076
N	123	123	123
G (clusters)	35	35	35
Country FE	No	Yes	Yes
Year FE	No	No	Yes

Notes: AdoptionScoreit = α+β1 log(Inflationit)+β2FXDeprit+β3Internetit+β4 log(GDPpcit)+ ε_{it}. Adoption score = (N_{global}−rank)/N_{global} ∈ [0,1]. CR1 clustered standard errors by country. Inference on $G - 1 = 34$ degrees of freedom. FX depreciation is the annual percentage change in the LCU/USD official exchange rate. Sample excludes Sudan and Zimbabwe. $^{***}p < 0.01$, $^{**}p < 0.05$, $^{*}p < 0.1$.
Sources: Chainalysis Global Crypto Adoption Index (2021–2024); World Bank Global Database of Inflation (2025); World Bank World Development Indicators (2025).

This finding shifts the analytical focus. If inflation does not have a strong association with adoption, contrary to what is commonly assumed, then research aimed at explaining why citizens turn to digital assets becomes less informative than research on what adoption produces once it occurs. The relevant questions concern the consequences of diffusion, including implications for seigniorage, monetary

policy transmission, and the long-run relationship between African states and dollar dominance. A geoeconomic research agenda provides the appropriate framework for these questions, directing attention to the strategic implications of adoption while the institutional architecture is still taking shape.

Table 2: Panel Regression of Crypto Adoption Score on Inflation and Controls, African Countries, 2021–2024

	M1 Pooled (levels)	**M2** Pooled (log)	**M3** Ctry FE (levels)	**M4** Ctry FE (log)	**M5** 2-Way FE (levels)	**M6** 2-Way FE (log)
β (Inflation)	+0.0059	+0.0407	−0.0014	−0.0077	+0.0023	+0.0046
[Clustered SE]	(0.0046)	(0.0287)	(0.0027)	(0.0207)	(0.0030)	(0.0169)
α (Constant)	+0.4046***	+0.3865***	—	—	—	—
[Clustered SE]	(0.0575)	(0.0595)				
R^2	0.029	0.026	0.002	0.002	0.005	0.001
Adjusted R^2	0.022	0.019	0.002	0.002	−0.44	−0.45
N	130	130	130	130	130	130
G (clusters)	37	37	37	37	37	37
Country FE	No	No	Yes	Yes	Yes	Yes
Year FE	No	No	No	No	Yes	Yes

Notes: $\text{AdoptionScore}_{it} = \alpha + \beta \cdot \text{Inflation}_{it} + \varepsilon_{it}$. Adoption score = $(N_{\text{global}} - \text{rank})/N_{\text{global}} \in [0,1]$. CR1 clustered standard errors by country. Inference on $G-1 = 36$ degrees of freedom. Sample excludes Sudan and Zimbabwe. *Sources:* Chainalysis Global Crypto Adoption Index (2021–2025); World Bank Global Database of Inflation (2025).

The case for this approach is both analytical and practical. As Barry Eichengreen has noted, stablecoin uptake outside the United States has so far been "less than impressive."[16] This essay does not argue that digital dollarisation in Africa has reached maturity. It argues that amidst their increasing adoption, the structural conditions that could facilitate its takeoff are present, that the United States has shown a willingness to use stablecoins as instruments of monetary statecraft, and that the revival of geoeconomics as a field offers a framework for analysing the implications. Engaging these questions while the architecture is still forming allows scholars and policymakers to shape the outcomes rather than respond to them after they have become entrenched.

The Evolving Geoeconomics of Currency in Africa

The expansion of stablecoins in Africa has occurred within a longstanding architecture of external monetary reference. Post-colonial currencies were established within international systems of convertibility that placed sterling, the franc, and later the US dollar at the centre of global trade and finance.[17] The Sterling Zone aligned much of British-controlled Africa with London's exchange-control regime, channeling reserve management, external balances, and trade settlement through the pooled arrangements of the sterling area.[18] Domestic monetary authority therefore operated in a framework where the usability of local currencies depended on continued access to sterling balances and the willingness of London to honour them.

The CFA franc zones institutionalised an even tighter configuration. West and Central African states adopted a fixed parity with the French franc, later the euro, supported by a convertibility guarantee

and pooled reserves.[19] Monetary credibility derived from the external anchor, while policy autonomy remained constrained by the institutional commitments of the arrangement. African monetary systems have therefore long functioned in reference to external benchmarks. Dollar-denominated stablecoins extend this pattern by embedding the dollar's reference role within tokenised and largely non-institutionalised financial infrastructure.

As these networks diffuse across African financial activity, their implications arise at the level of monetary structure. Transactions denominated and settled outside domestic banking systems reduce the operational domain of national currencies. Seigniorage is partly displaced into private channels, liquidity management becomes more complex, and monetary policy transmission weakens as economic activity migrates onto externally anchored settlement layers.[20]

Such a transformation would have a clear geoeconomic dimension, as control over financial infrastructure can operate as strategic leverage when economic relationships are coordinated through a common system. The ability of the United States to shape the global sanctions regime serves as just one of many ways in which such leverage can have geoeconomic ramifications. Adjacent to this lies the role of network effects. Stablecoin systems can extend this architecture into new monetary environments. As USDT and USDC become embedded in digital financial activity and access to dollar-denominated settlement increasingly defines the relevant margin of control, this extends the network effects of the US dollar into the digital domain. As usage expands further, merchants accept these tokens, remittance corridors integrate them, and financial activity progressively reorganises around a shared settlement layer.[21] The resulting structure amplifies the reach of the underlying currency system, extending its influence to actors and jurisdictions beyond the US. American-based legislative initiatives such as the CLARITY and GENIUS Acts deepen this dynamic by embedding compliance requirements, reserve mandates, and sanctions screening into the conditions governing dollar-stablecoin issuance.

The implications differ across African monetary regimes. For countries in the CFA franc zone, whose institutional commitment centres on external parity with the euro, dollar-denominated stablecoins pose a different challenge from that faced by more autonomous currencies. These economies historically exchanged monetary autonomy for exchange-rate stability, embedding financial intermediation within a fixed-parity framework. The emergence of euro-denominated and potentially CFA-denominated stablecoins therefore raises distinct questions concerning seigniorage, banking system depth, and the political economy of the monetary union. Although analytically separate from the dollar-stablecoin trajectory, these developments share a common implication: stablecoin diffusion redistributes monetary influence along the lines of the currency that backs the instrument.

At the same time, the infrastructure that enables this redistribution may expand financial access. Stablecoins offer lower-cost cross-border payments, more efficient remittance channels, and alternative savings instruments for populations underserved by conventional financial services.[22] However, increasing reliance on these networks also reduces the fiscal and informational visibility of the state. Regulators therefore occupy a transitional position.

Many African economies maintain formal or informal restrictions on the use of cryptocurrencies and stablecoins, but the current permissionless character of the underlying infrastructure limits the effectiveness of prohibition while reducing the state's capacity to monitor activity.[23] It is also for this reason that stablecoins have the potential to represent an emerging monetary layer through which domestic and international monetary relations are being re-organised.[24]

Adressing the Stablecoing Conundrum

African governments face a choice that is more tractable than the scale of the problem might suggest. The issue is not whether stablecoins will diffuse further across the continent. Given the structural conditions driving adoption and the explicit commercial and political incentives behind dollar-stablecoin expansion, some degree of continued diffusion is likely. The question is whether states engage with that process deliberately, taking steps at both the domestic and international level to shape its consequences, or whether they respond reactively once the costs are already embedded.

At the domestic level, the first and most pressing concern is seigniorage. Across much of Sub-Saharan Africa, money creation is a meaningful source of public revenue. As dollar-denominated stablecoins capture a larger share of transactions and savings, that revenue flows instead to foreign issuers.[25] The loss need not be catastrophic in any single year to be consequential over time. States with thin fiscal margins and limited access to capital markets cannot easily absorb even modest structural reductions in monetary revenue. The appropriate response is to treat rising stablecoin adoption not as a remote risk but as a fiscal planning scenario that warrants attention now, before the trajectory is established.

Beyond protecting the seigniorage base, African governments can take steps to ensure that growing adoption does not translate into wholesale displacement of domestic financial infrastructure. One avenue is maximising the financial inclusion potential of stablecoins rather than ceding it to foreign providers. The unbanked adult population across Sub-Saharan Africa remains very large, and formal banking has proved a limited vehicle for reaching it. Where stablecoins can provide access to payments, savings, and cross-border transfers at lower cost, there is a public interest in ensuring that access occurs through channels that retain some domestic regulatory visibility. Licensing regimes for digital asset providers and clear legal frameworks for stablecoin activity accomplish this better than informal prohibition, which tends to push activity into less visible corners of the financial system without reducing its volume.[26]

Governments can also move to restrict the use of stablecoins for illicit payments. A significant share of stablecoin transactions on the continent involves activity that would not survive basic scrutiny: tax evasion, fraudulent transfers, and evasion of capital controls.[27] The permissionless character of blockchain infrastructure makes comprehensive surveillance impractical, but it does not preclude targeted oversight of the licensed exchanges, payment processors, and formal financial institutions through which most digital asset activity ultimately connects to the domestic economy. States that establish clear rules at these connection points retain meaningful sway over the ecosystem without needing to police the underlying network.

Financial deepening is a fourth domestic priority and one whose benefits extend well beyond the stablecoin question. The monetary fragility that makes dollar substitutes attractive is itself a symptom of thin domestic financial systems in which savings instruments are unreliable, credit is scarce, and monetary policy transmission is weak. Developing domestic capital markets, improving the quality of financial intermediation, and extending the maturity of the domestic yield curve address the structural demand for foreign currency alternatives. Over time, they also reduce the fiscal dependence on seigniorage that makes stablecoin diffusion so threatening in the first place.

At the global level, the most important thing African states can do is participate actively in the processes by which stablecoin infrastructure is being designed and regulated rather than treating those processes as external events. The regulatory architecture being constructed through legislation like the US CLARITY Act will shape the terms on which dollar stablecoins circulate globally, including in African markets. States and regional bodies that engage with those processes, whether through bilateral

dialogue, multilateral financial institutions, or direct development of competing monetary instruments, have more influence over outcomes than those that observe from the outside. Developing CBDCs and local-currency stablecoins that interoperate with emerging global payment rails is one expression of this kind of engagement. It is not a solution to dollar dominance, but it preserves a domestic foothold in a payments landscape that is being restructured in real time. Governments that begin that work now will be better placed to adapt as the landscape continues to evolve. Those who wait may find the terms of participation already set.

Conclusion

This essay advances three arguments. The first is empirical. The intuition that inflation drives stablecoin adoption in Africa does not survive within-country scrutiny. The second is analytical. The relevant questions about stablecoins in Africa concern their consequences rather than their causes, and those consequences are best understood through a geoeconomic lens. Dollar-stablecoin diffusion extends US monetary reach into economies that never negotiated the terms of that relationship, compresses the fiscal and monetary space of states already operating at the margins, and embeds African users in financial infrastructure shaped by decisions made in Washington. The third argument is practical. African governments retain meaningful policy options. Protecting seigniorage revenue, building domestic digital currency capacity, channelling stablecoin adoption toward financial inclusion, and deepening domestic financial markets are all within reach. Active engagement with the international processes through which stablecoin architecture is being constructed is equally important. One dimension of this question is not addressed here and will require separate treatment. Yield-bearing stablecoins are growing in prominence.[28] If they displace payment-oriented instruments as the primary vehicle for digital dollar adoption, the geoeconomic stakes change in character. The issue would no longer only concern the specific challenges that stablecoins pose to domestic money but the incorporation of African savers into a yield-generating system they do not control, and depending on the yield source, whose risks they cannot easily price. That is a distinct problem and one worth anticipating.[29]

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