

Crypto Is Officially Funding America's National Debt — And Washington Planned It

Tether Holds \$141B in US Treasuries. Standard Chartered Projects \$1T in New T-Bill Demand by 2028. — Q2 2026

The United States government spent more than a decade debating whether to ban stablecoins, restrict them, or regulate them out of existence. Then, after the GENIUS Act was signed into law on July 18, 2025, Washington did something far more strategically sophisticated: it turned the entire stablecoin industry into a mandatory, structurally permanent buyer of US government debt. The mechanism is embedded in the GENIUS Act's reserve requirements — every GENIUS Act-compliant payment stablecoin must maintain reserves on a 1:1 basis, with permitted reserve assets including US Treasury bills with a maturity of 93 days or less and overnight repurchase agreements backed by Treasuries. Every dollar of GENIUS Act-compliant stablecoin issuance anywhere in the world creates mandatory demand for US government debt instruments. Tether closed 2025 with total direct and indirect exposure to US Treasuries surpassing \$141 billion — making it the 17th largest holder of American government debt worldwide and the largest non-sovereign holder of US Treasury securities on earth. Standard Chartered analysts Geoffrey Kendrick and John Davies published research in February 2026 projecting that the stablecoin market's growth to \$2 trillion by 2028 will generate \$800 billion to \$1 trillion in new T-bill demand. Treasury Secretary Scott Bessent told Congress in February 2026 that the GENIUS Act could become an important feature of financing the US. This is not an accidental outcome. It is the most elegant fiscal strategy the US Treasury has executed since the petrodollar arrangement.

01 — HOW THE GENIUS ACT TURNED CRYPTO INTO A TREASURY BUYER

The GENIUS Act — the Guiding and Establishing National Innovation for US Stablecoins Act, signed by President Trump on July 18, 2025 — is marketed as a consumer protection and regulatory clarity law for payment stablecoins. It is all of those things. It is also, embedded in its reserve requirement provisions, the most significant expansion of US Treasury demand since the creation of the Social Security Trust Fund.

The reserve requirement structure of the GENIUS Act mandates that every permitted payment stablecoin issuer maintain reserves backing its outstanding tokens on at least a 1:1 basis. The permitted reserve assets are specifically enumerated and deliberately constrained to the safest, most liquid instruments in the US financial system. They include US coins and currency or funds at a Federal Reserve Bank, demand deposits at federally insured depository institutions, US Treasury bills with a maturity of 93 days or less, repurchase agreements with overnight maturity backed by Treasury bills,

and reverse repurchase agreements collateralized by Treasury notes, bills, or bonds. Notably excluded are corporate bonds, equity securities, and longer-duration government bonds — the reserve portfolio of a GENIUS Act-compliant stablecoin issuer must be concentrated at the short end of the Treasury curve.

The fiscal consequence is mechanical and permanent. When a user in Vietnam, Turkey, or Argentina converts local currency into USDC to protect against inflation, Circle receives the fiat currency and must hold approximately one dollar in GENIUS Act-compliant reserve assets for every USDC token issued. The most yield-generating compliant reserve asset — and the one most stablecoin issuers already prefer — is the US Treasury bill. The user's inflation hedge becomes a US government short-term debt purchase. At \$316 billion in total stablecoin supply in April 2026, approximately \$250 to \$280 billion of that supply is backed by US Treasury bills, repurchase agreements, and other short-term US government obligations. Every new dollar of stablecoin issuance under the GENIUS Act framework adds approximately one dollar of demand to the US Treasury bill market.

Brookings Institution researchers confirmed the mechanism in their March 2026 analysis: the passage of the GENIUS Act and the possibility of access to a Federal Reserve payment account create greater regulatory clarity and the potential for increased functionality — advances that are expected to spur rapid growth in the use of stablecoins and the amounts outstanding. This growth is also likely to lead to a sharp increase in the demand for Treasury bills as stablecoin reserves. Treasury Secretary Bessent has suggested that this could reduce the government's debt service costs and improve its fiscal position.

GENIUS ACT RESERVE MECHANICS: Every USDT and USDC token requires approximately \$1 in US Treasury bills as backing. At \$316B in stablecoin supply, approximately \$250-280B in US Treasury demand is structural and permanent. Every new stablecoin dollar issued under GENIUS Act adds approximately \$1 to US T-bill demand. Washington did not stumble into this. It engineered it.

02 — TETHER: THE 17TH LARGEST HOLDER OF AMERICAN GOVERNMENT DEBT

Tether — the company behind USDT, the world's largest stablecoin with approximately \$190 billion in circulation as of Q2 2026 — closed 2025 with total direct and indirect exposure to US Treasuries surpassing \$141 billion. The company itself confirmed in official attestations that it was the 17th largest overall holder of US government debt worldwide and the largest non-sovereign holder of US Treasury securities on earth — ahead of many sovereign wealth funds, central banks, and every major US mutual fund family by Treasury bill holdings alone.

The Tether Treasury position generates extraordinary economics. At \$141 billion in US Treasury holdings earning approximately 4.3 to 4.5% annualized yield at current short-term rates, Tether's Treasury portfolio generates approximately \$6 billion in annual interest income — the float revenue that funds its operations and has made it one of the most profitable financial companies in the world by profit per employee. Tether's CEO has indicated the firm could expand its holdings even further and become a top-10 Treasury bill buyer. Bo Hines, the White House Crypto Czar during his 130-day tenure, confirmed Tether's trajectory as a major strategic Treasury buyer in his public communications about

the GENIUS Act's fiscal implications.

Circle's USDC reserve portfolio is similarly concentrated in US Treasury instruments. Circle holds approximately \$77 billion in USDC reserves with a significant share concentrated in short-dated Treasuries, primarily through its partnership with BlackRock's USFR Treasury money market fund and direct T-bill purchases. As Circle's IPO process advances through 2026, the transparency requirements of public company status will make its Treasury holdings visible to institutional investors in the same way that sovereign wealth fund holdings are tracked — adding another data point to the growing recognition that USDC is structurally a US government debt vehicle wrapped in payment instrument form.

The stablecoin market's growth from \$200 billion to \$309 billion between July and November 2025 — driven directly by the GENIUS Act's passage — prompted stablecoin issuers to purchase \$109 billion in additional US Treasury bills in that five-month window alone. The US Treasury's February 4, 2026 Quarterly Refunding Announcement explicitly noted that it is monitoring SOMA purchases of Treasury bills and growing demand from the private sector — federal acknowledgment that stablecoin-driven Treasury demand is now large enough to influence the Treasury's debt issuance strategy.

03 — STANDARD CHARTERED'S \$1 TRILLION PROJECTION: THE MATH

Standard Chartered's February 2026 research report — authored by Geoff Kendrick, head of digital asset research, and John Davies, US rates strategist — provides the most rigorously quantified projection of stablecoin-driven Treasury demand available from a major institutional bank. The report projects the stablecoin market reaching \$2 trillion in total capitalization by the end of 2028, generating \$800 billion to \$1 trillion in new Treasury bill demand from stablecoin reserves over the 2026-2028 period.

The report's most striking finding is the potential supply-demand imbalance it identifies. Combining projected stablecoin-driven T-bill demand of \$800 billion to \$1 trillion with projected Federal Reserve T-bill purchases of \$500 to \$600 billion through Reserve Management Purchases and mortgage-backed securities reinvestment, total new T-bill demand could reach approximately \$2.2 trillion through 2028. Against projected net new T-bill supply of approximately \$1.3 trillion if the share of bills within total outstanding debt remains constant — based on Congressional Budget Office estimates — the result is a potential \$900 billion supply shortfall. Standard Chartered analysts argue this could make T-bills scarce unless the Treasury adjusts its issuance pattern, potentially pausing 30-year bond auctions for several years to increase short-term supply.

Treasury Secretary Scott Bessent's February 2026 congressional testimony confirmed that Washington understands these dynamics and views them favorably. Bessent stated that the GENIUS Act could become an important feature of financing the US — an explicit acknowledgment that the Treasury Department views stablecoin-driven demand for short-term government debt as a feature of the GENIUS Act rather than an unintended consequence. Standard Chartered's Kendrick and Davies also noted that if stablecoin reserves expand through reverse repurchase agreements collateralized by longer-dated Treasuries — a permitted reserve mechanism under the GENIUS Act — stablecoin issuers could become sources of cash collateral for counterparties buying longer-dated Treasury securities,

extending the Treasury demand effect beyond the front end of the yield curve.

04 — THE FISCAL STRATEGY: MORE ELEGANT THAN THE PETRODOLLAR

The petrodollar arrangement — the informal agreement established between the United States and Saudi Arabia in 1974 that oil would be priced and sold in US dollars, requiring oil-importing nations to accumulate dollar reserves to purchase energy — is often cited as the most strategically sophisticated monetary arrangement in modern financial history. It extended dollar dominance by creating permanent, structural demand for US currency and US government debt from every oil-importing nation on earth.

The stablecoin-Treasury fiscal arrangement embedded in the GENIUS Act is more elegant than the petrodollar for three specific reasons. First, it is legally mandatory rather than informally maintained — every GENIUS Act-compliant stablecoin issuer is legally required to hold US Treasury instruments, while the petrodollar was always a diplomatic arrangement that could be unwound by sovereign decision. Second, it scales automatically with adoption — every new dollar of stablecoin issuance creates mandated Treasury demand without any government action required. Third, it is geographically unrestricted — a stablecoin issuer in Singapore or Dubai that issues USDC under a GENIUS Act-compliant framework must hold US Treasury bills as reserves, creating US government debt demand from entities and geographies that the petrodollar arrangement could not reach.

The Federal Reserve Bank of Kansas City's February 2026 research bulletin confirmed that stablecoin issuers now hold approximately the same proportion of their assets in US Treasuries as the most Treasury-concentrated institutional investors — with Treasury bills representing approximately 50% of stablecoin issuer reserve portfolios. The Kansas City Fed's analysis also confirmed the mechanism by which stablecoin growth creates Treasury demand without displacing other Treasury buyers — by drawing capital from bank deposits and foreign currency savings rather than from existing Treasury market participants.

The Federal Reserve published an official research note on April 22, 2026 confirming that payment stablecoins create structural linkages between the digital asset ecosystem and the US government debt market that warrant monitoring as a component of macroeconomic analysis — the most explicit Federal Reserve acknowledgment to date that stablecoin-driven Treasury demand is now a systemic factor in how the United States finances its national debt.

THE ARRANGEMENT: GENIUS Act makes stablecoin reserve Treasury holdings legally mandatory. Every new stablecoin dollar = new T-bill demand. No diplomacy required. No sovereign decision to unwind. The mechanism is statutory. Bessent called it an important feature of financing the US. He was not being modest.

05 — WHAT THIS MEANS FOR INVESTORS: THE COMPOUNDING FEEDBACK LOOP

The stablecoin-Treasury fiscal arrangement creates a compounding feedback loop that benefits both the US government and the stablecoin ecosystem simultaneously — and that loop has investment implications for every participant in the crypto market.

The US government benefits from structurally mandated, automatically scaling demand for its short-term debt instruments. As stablecoin adoption grows globally — driven by inflation hedging in emerging markets, AI agent micropayments through x402, GENIUS Act-compliant institutional stablecoin products, and the broader digitization of cross-border payments — every new dollar of stablecoin supply adds a dollar of T-bill demand. This lowers the government's borrowing cost at the short end of the curve and reduces the auction risk for Treasury bill issuance.

The stablecoin ecosystem benefits from the regulatory clarity and political protection that comes with being a major buyer of US government debt. Tether, as the 17th largest holder of US Treasury securities, is too embedded in the US government financing infrastructure to be casually banned, restricted, or driven offshore. Circle, as a GENIUS Act-compliant issuer preparing for an IPO, benefits from the regulatory standing that comes with being an explicit component of US fiscal policy. The political economy of the stablecoin industry has fundamentally changed from a technology that regulators wanted to contain into an industry that policymakers actively want to grow because its growth funds the government.

For investors, the investment implication extends beyond USDC and USDT to the infrastructure that carries stablecoin volume. Every dollar of stablecoin that settles on Ethereum, Base, Solana, or the XRP Ledger generates transaction fees for those networks. Every dollar of stablecoin reserve held in tokenized Treasury funds like BlackRock's BUIDL, JPMorgan's JLTXX, or Fidelity's FILQ generates yield for those products and fees for their infrastructure providers. The stablecoin-Treasury fiscal arrangement is not just a macro story about US government debt. It is the structural driver of transaction volume for every blockchain network and every tokenized fund product that benefits from stablecoin growth.

06 — CONCLUSION: THE INDUSTRY THEY TRIED TO BAN IS NOW FUNDING THE COUNTRY

The arc of US government engagement with stablecoins runs from explicit hostility to strategic embrace in approximately four years. The Biden administration's regulatory approach treated stablecoins as a systemic risk requiring containment. The Trump administration's GENIUS Act treated stablecoins as a strategic asset requiring cultivation — specifically, cultivating stablecoin growth because every dollar of stablecoin supply creates mandatory demand for US Treasury bills that would otherwise need to be sold to less reliable buyers at potentially higher yields.

The numbers confirm the strategic logic. Tether at \$141 billion in Treasury exposure. Standard Chartered projecting \$1 trillion in new T-bill demand by 2028. The US Treasury's Quarterly Refunding Announcement monitoring stablecoin-driven demand. The Federal Reserve publishing research papers on stablecoin Treasury linkages. The Brookings Institution confirming the fiscal mechanism. Treasury Secretary Bessent calling the GENIUS Act an important feature of financing the US. These are not coincidences. They are the public data points of a fiscal strategy that the United States government designed, legislated, and is actively monitoring as it executes.

For investors who have been asking why the US government went from trying to ban crypto to actively promoting it — why the GENIUS Act passed with bipartisan support, why the CLARITY Act is advancing

on a July 4 timeline, why the SEC innovation exemption was designed to accelerate tokenized securities trading — the stablecoin-Treasury fiscal arrangement is a significant part of the answer. A growing stablecoin market is a growing T-bill buyer. A growing T-bill buyer lowers the government's borrowing costs. Lower borrowing costs reduce debt service on a national debt that has now crossed \$36 trillion. Washington did not change its mind about crypto because it suddenly found the technology appealing. It changed its mind because it found a way to make crypto fund the government.

Tether is the 17th largest holder of US government debt. Stablecoins will generate \$1T in new T-bill demand by 2028. Treasury Secretary Bessent called it an important feature of financing the US. The industry they tried to ban is now funding the country. Position accordingly.

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