

THE EIB AT THE INFLECTION POINT: MANDATE COLLISION AND THE PRIVATE MONETARY LAYER

ABSTRACT

The European Investment Bank holds a structurally singular position in global development finance. It carries a AAA credit rating underwritten by twenty-seven member state guarantees, borrows at near-sovereign cost in international capital markets, and deployed €88 billion in signed financing agreements during 2023 across EU member states and 160 partner countries. Its operational logic rests on two structural conditions: access to institutional capital at a spread that makes long-duration project finance executable, and the existence of a euro-denominated payment infrastructure beneath its disbursement flows. The Guiding and Establishing National Innovation for U.S. Stablecoins Act (GENIUS Act) places pressure on both conditions simultaneously. The Act mandates that payment stablecoin issuers hold reserves exclusively in US dollar instruments, primarily short-duration Treasury securities and Federal Reserve deposits. EIB bonds do not qualify. At the scale the Act's proponents project, the resulting demand asymmetry raises the EIB's marginal borrowing cost relative to US instruments and compresses the intermediation spread on which the Bank's mandate depends. Simultaneously, dollar-denominated stablecoin payment infrastructure is advancing into the Mediterranean, sub-Saharan African, and Eastern European corridors where the EIB deploys its development capital. The Bank's disbursement architecture has no mechanism for a private monetary layer operating beneath it. This paper diagnoses the structural collision between the EIB's mandate architecture and the monetary infrastructure the

GENIUS Act constructs, and identifies the points at which the Bank's existing frameworks cannot see what is building beneath them.

INTRODUCTION

The European Investment Bank was established by the Treaty of Rome in 1958 as the financing institution of the European Economic Community. Its original purpose was capital intermediation for infrastructure and cohesion investment that private markets would not finance at terms compatible with European integration objectives. Sixty-seven years later, those objectives have expanded substantially; the Bank now finances climate transition infrastructure, digital economy development, health systems, and development lending across Africa, Latin America, and Asia. Its annual lending volume places it ahead of the World Bank Group in total financing deployed. Its institutional logic has not changed. It borrows cheaply, lends long, and passes the cost advantage of its member state-backed credit quality to borrowers who could not otherwise access capital at comparable rates.

The Bank's treasury operations are sophisticated. Its bond issuance programme spans forty currencies and reaches institutional investors across six continents. In 2023, the EIB issued €53.5 billion in bonds and notes to fund its lending operations, placing paper with sovereign wealth funds, pension systems, central banks, and asset managers for whom EIB bonds represent a liquid, high-quality alternative to government paper (European Investment Bank, 2024). That substitutability is not incidental to the Bank's funding model. It is the model.

The Guiding and Establishing National Innovation for U.S. Stablecoins Act, passed by the United States Senate on 17 June 2025 and signed into law on 18 July 2025, creates a federal regulatory framework for payment stablecoins denominated in US dollars. Its reserve mandate defines the qualifying assets that stablecoin issuers must hold against outstanding liabilities: cash, Federal Reserve deposits, short-duration US Treasury instruments with maturities not exceeding ninety-three days, Treasury-backed repurchase agreements, and money market funds whose portfolios consist exclusively of those instruments (S.1582, 119th Congress, 2025). The definition is comprehensive in its American focus and complete in its European exclusion. EIB bonds do not qualify. No

European sovereign paper qualifies. The reserve mandate is, in its structural effect, a preference mechanism for US dollar instruments embedded in the architecture of a payment system that the Act's sponsors project will operate at multi-trillion-dollar scale.

This paper does not argue that the GENIUS Act was designed to disadvantage the EIB. Its authors were focused on domestic monetary stability, consumer protection, and the competitive positioning of dollar-denominated payment infrastructure against Chinese and European alternatives. The EIB's interests were not represented in the drafting process. The collision described here is structural rather than intentional. Structural collisions are not made less consequential by the absence of intent behind them.

1. THE MANDATE ARCHITECTURE: HOW THE EIB WAS BUILT TO WORK

The EIB's financial model has three load-bearing components. The first is its credit quality: a AAA rating from Fitch, Moody's, and Standard and Poor's, underwritten by the callable capital guarantees of twenty-seven EU member states and by the European Union's own budget as collateral. This credit quality allows the Bank to borrow in international capital markets at a spread that no purely private institution could replicate and that only the deepest European sovereigns approach. In practice, the EIB borrows at spreads of 10 to 40 basis points over the mid-swap rate depending on currency and tenor, producing effective borrowing costs that sit marginally above the German Bund but below the yield of most other European sovereigns (European Investment Bank, 2024).

The second component is the intermediation spread. The EIB does not borrow to hold assets. It borrows to lend. The spread between its wholesale funding cost and the rate at which it can lend to qualifying project counterparties is the mechanism through which its mandate becomes financially self-sustaining. The Bank does not operate on a grant basis for the majority of its lending; it operates on a lending basis, requiring that its portfolio generate sufficient return to cover funding costs, operational expenses, and the maintenance of its capital adequacy ratios. The viability of this model depends on the EIB's ability to borrow in competitive international capital markets at a cost that leaves an executable margin when translated into project finance terms.

The third component is the institutional allocation its bonds attract. EIB paper is held as a high-quality liquid asset by pension funds, insurance companies, central banks, and sovereign wealth funds across six continents. The Bank's bonds qualify as high-quality liquid assets under Basel III frameworks and as eligible collateral across major central bank facilities. This institutional demand, structurally embedded in regulatory and reserve frameworks across dozens of jurisdictions, sustains the liquidity of EIB paper and thereby the efficiency of the Bank's funding operations.

The system is self-reinforcing. High credit quality produces low borrowing cost. Low borrowing cost produces a lending spread that sustains the institution. Institutional regulatory frameworks embed EIB paper as a preferred asset class, sustaining demand. That demand sustains the credit quality by maintaining the Bank's access to capital across market cycles. The architecture has operated with substantial stability for sixty-seven years. The GENIUS Act introduces a structural variable the architecture did not anticipate.

What the EIB's mandate architecture was not designed for is competition with a demand pool that is legally prohibited from considering it. Central banks, pension systems, and sovereign wealth funds that hold EIB paper make allocation decisions in which EIB bonds compete with US Treasuries on the merits: yield, liquidity, duration, and regulatory treatment. The stablecoin reserve pool does not make allocation decisions of that kind. It is required by law to hold US dollar instruments. EIB bonds are structurally ineligible. The competition for that capital pool has been resolved by legislative definition before the EIB's treasury operations enter the room.

2. WHAT THE GENIUS ACT CONSTRUCTS: RESERVE ARCHITECTURE AND CAPITAL DEMAND

The GENIUS Act creates a regulatory category: the payment stablecoin. A payment stablecoin, as defined by the Act, is a digital instrument denominated in a fixed monetary value, intended for use as a means of payment, and redeemable on demand at par value in the referenced currency (S.1582, 119th Congress, 2025). The Act establishes a dual licensing framework: issuers may obtain federal approval through the Office of the

Comptroller of the Currency or state approval under a framework meeting federal minimum standards. Both pathways impose an identical reserve requirement: 1:1 coverage of outstanding liabilities by qualifying liquid assets.

The reserve asset definition is the mechanism through which the Act's monetary architecture becomes consequential for international capital markets. Qualifying reserves are limited to: lawful money of the United States; insured demand deposits at federally or state-regulated depository institutions; Treasury bills, notes, and bonds with a remaining maturity of ninety-three days or less; overnight repurchase agreements collateralised by Treasury securities; and shares in money market funds registered under the Investment Company Act of 1940 that hold exclusively the foregoing instruments.

The stablecoin market at the time of the Act's passage was approximately \$230 billion in total outstanding liabilities (CoinMetrics, 2025). Tether International Limited, the largest issuer, reported holding \$102.4 billion in US Treasury securities as of its Q4 2024 reserve attestation, placing it among the twenty largest holders of US Treasuries globally (Tether Operations Limited, 2024). Circle Internet Financial, the second-largest issuer, reported \$43.8 billion in reserves held predominantly in Treasury securities and government money market funds as of December 2024 (Circle Internet Financial, 2024). These figures represent an informally regulated market operating ahead of the comprehensive federal framework the GENIUS Act now establishes.

The Act's proponents have projected stablecoin market capitalisation reaching \$2 trillion within five years of enactment. At that scale, and on a conservative 90 percent Treasury-allocation assumption, the reserve mandate would generate incremental demand for US Treasury instruments of approximately \$1.8 trillion. Treasury Secretary Scott Bessent testified before the Senate Banking Committee in March 2025 that stablecoin adoption would generate demand for US Treasury paper comparable to the current holdings of a major sovereign investor class (U.S. Senate Banking Committee, 2025). The structural implications of that demand for competing high-quality liquid asset markets were not addressed in the testimony.

EIB bonds are not in this reserve universe. They are not Treasury-backed. They are not dollar-denominated. The GENIUS Act does not prohibit stablecoin issuers from holding EIB paper; it simply does not count it. The effect is identical: EIB bonds will not participate

in the reserve accumulation that stablecoin market growth generates, regardless of EIB credit quality, liquidity, or regulatory standing in any other framework.

3. THE CAPITAL MARKET ASYMMETRY: SUPRANATIONAL PAPER IN A TREASURY-MANDATED WORLD

The EIB competes for institutional allocation against a set of asset classes that includes US Treasuries, German Bunds, UK Gilts, Japanese Government Bonds, and comparable sovereign and supranational paper. Institutional investors, including central banks, pension systems, and sovereign wealth funds, hold EIB paper as part of diversified high-quality liquid asset portfolios. The EIB's attractiveness as an allocation relative to US Treasuries is a function of yield spread, liquidity, and regulatory equivalence across the frameworks governing its investors.

The GENIUS Act introduces a structural demand asymmetry into that competitive relationship. By mandating that a growing class of institutional-scale reserve holders must hold US Treasury paper, the Act creates a captive demand pool for US sovereign instruments. This demand pool is not price-sensitive in the conventional sense: stablecoin issuers are not optimising for yield across the full high-quality liquid asset universe. They are legally required to hold Treasury paper. The demand is inelastic by regulatory design.

The mechanism through which this affects the EIB operates through the yield spread. US Treasury yields are determined in part by the balance between supply and demand for Treasury paper. Inelastic demand at scale, all else being equal, compresses Treasury yields relative to what they would otherwise be. Compressed Treasury yields raise the spread between Treasuries and EIB paper, which is not subject to the same mandatory demand. Widening spreads raise the relative cost of EIB borrowing.

The BIS has documented that mandatory reserve requirements at institutional scale exert measurable pressure on the yield structure of mandated asset classes, consistent with the Liquidity Coverage Ratio's effect on sovereign bond markets following Basel III implementation (Bank for International Settlements, 2023). The LCR requirement, which mandated that banks hold eligible high-quality liquid assets against 30-day net cash

outflows, demonstrably compressed yields on HQLA-eligible sovereign bonds during the post-2013 implementation period. The GENIUS Act's reserve mandate operates through the same channel at potentially larger scale and with a narrower set of eligible instruments.

One additional mechanism warrants attention. The stablecoin reserve mandate creates a structural buyer for short-duration Treasury paper at a scale that compresses the short end of the yield curve. The EIB's funding operations concentrate in medium- and long-duration paper, where the direct competition with short-duration Treasury paper is less immediate. However, compression of short-end Treasury yields raises the relative attractiveness of longer-duration US paper on a risk-adjusted basis; sovereign investors seeking duration shift incrementally toward longer US paper rather than supranational alternatives. The yield curve effect diffuses across maturities rather than concentrating at one point, and the EIB's medium-duration issuance sits in the range where that diffusion is most material.

The EIB's treasury team will be aware of this dynamic. The question is not awareness but instrument. The Bank cannot alter the GENIUS Act's reserve definition. It cannot make its bonds qualify as stablecoin reserves. It can attempt to manage its funding mix toward shorter tenors and currency diversification, but its long-duration lending mandate structurally constrains the degree to which shorter-tenor funding can be sustained as a primary strategy. The spread environment in which the Bank will fund its next decade of lending is being shaped by legislation drafted in Washington for domestic monetary purposes. The EIB was not a party to that drafting.

4. THE DISBURSEMENT CORRIDOR: PRIVATE MONETARY INFRASTRUCTURE IN EIB OPERATING TERRITORY

The capital market asymmetry is the EIB's funding-side problem. The disbursement corridor is the deployment-side problem. The two are distinct in mechanism; they are converging in consequence.

The EIB deploys capital outside the European Union through two primary channels: the External Lending Mandate, through which the Bank provides financing in partner countries with EU guarantee backing, and own-risk lending to projects in EU neighbouring and candidate countries. The Mediterranean corridor is the primary external deployment territory by volume. Between 2021 and 2025, the EIB committed approximately €12 billion in financing to partner countries across the southern Mediterranean and Middle East and North Africa region under successive external mandate frameworks (European Investment Bank, 2025). The Eastern European neighbourhood and Western Balkans accession economies represent a second major external corridor. Sub-Saharan Africa, where the EIB operates through the European Fund for Sustainable Development Plus guarantee framework, represents a third.

These corridors share a characteristic directly relevant to the stablecoin adoption question: they are economies where domestic banking infrastructure is incomplete, dollar-denominated trade finance is the operational norm, and mobile payment infrastructure has demonstrated an institutional capacity to expand faster than the formal banking sector. The adoption conditions for dollar-denominated stablecoin payment rails are, in the Mediterranean and sub-Saharan African contexts, markedly more favourable than in mature European markets.

The evidence from the mobile money precedent is instructive. M-PESA, launched in Kenya in 2007, reached 17 million active users within four years and processed transactions equivalent to 25 percent of Kenya's GDP by 2011, operating in an environment where formal banking penetration stood below 23 percent of the adult population (International Finance Corporation, 2018). The stablecoin payment layer presents a structurally analogous adoption pathway in economies where dollar-denominated transactions are already preferred and mobile infrastructure is the primary access point for financial services. The difference between M-PESA and a dollar-denominated stablecoin payment rail is that the stablecoin layer denominates in a currency that competes directly with the euro across the EIB's Mediterranean deployment corridor.

The EIB's disbursement and repayment infrastructure operates in euros. Project financing agreements, typically spanning ten to twenty years, specify repayment in the currency of disbursement or in currencies linked to the project's revenue stream. When the EIB disburses euros into a corridor where the operational payment layer is increasingly

dollar-denominated stablecoins, it introduces a currency interface at the project level that its financing architecture did not anticipate. The borrower receiving EIB disbursements in euros but conducting project-level procurement and payment in stablecoin dollars faces a currency conversion cost that the EIB's concessional rate advantage was not priced to absorb.

The revenue-side problem is equally material. A Tunisian infrastructure borrower whose project revenue is increasingly collected through a dollarising stablecoin payment layer faces a sovereign currency risk profile that the EIB's standard external lending models, calibrated for euro-area credit transmission and conventional foreign exchange exposure, may not adequately capture. The Bank's credit framework was built for a world in which the monetary architecture beneath its borrowers is administered by sovereign central banks. The stablecoin layer introduces a privately issued monetary instrument beneath the sovereign layer; one that the EIB's credit models were not designed to assess.

5. THE CREDIT FRAMEWORK GAP: WHAT THE BANK'S MODELS CANNOT PRICE

The EIB's credit risk management operates under a framework developed over six decades of project finance and sovereign lending. It incorporates country risk ratings, political risk assessments, environmental and social risk standards, and financial covenants calibrated to the revenue and cost structure of financed projects. The framework is continuously updated. Its foundational assumptions are calibrated to a monetary architecture that no longer fully describes the environments in which the Bank operates.

The foundational assumption is monetary sovereignty. When the EIB lends to a borrower in a partner country, its credit analysis assumes that the monetary environment governing that borrower's revenues, costs, and debt service capacity is administered by the country's central bank in coordination with its fiscal authority. Exchange rate risk, inflation risk, and monetary policy risk are assessed in those terms. The stablecoin payment layer introduces a fourth monetary actor into that framework: a privately issued, US-dollar-denominated instrument that circulates alongside the sovereign currency, is not subject to the host country's monetary authority, and whose monetary conditions are determined by the

Federal Reserve's effect on the US dollar and by the reserve decisions of the issuing institution.

The EIB's external credit models do not have a variable for private monetary layer penetration. They assess foreign currency dependence through standard dollarisation metrics, which capture the share of formal banking deposits and lending denominated in foreign currency. Stablecoin penetration, operating outside the formal banking system through mobile wallets and exchange infrastructure, is not captured by conventional dollarisation metrics. A partner country economy that shows formal dollarisation ratios of 30 percent may have a stablecoin payment layer handling 40 percent of retail and small-and-medium enterprise transactions without that penetration appearing in the data the EIB's credit models consume.

This is not a speculative risk. El Salvador, which adopted Bitcoin as legal tender in 2021 and has progressively integrated stablecoin payment infrastructure through its Chivo wallet system, presents exactly this measurement problem: the Central Reserve Bank's monetary statistics do not comprehensively capture the volume of transactions occurring on private payment rails operating outside the formal banking system (International Monetary Fund, 2025). Ecuador, which is formally fully dollarised, presents a simpler version of the same problem; stablecoin adoption in Ecuador's informal economy adds a privately issued layer atop a dollar base that already lacks domestic monetary sovereignty tools. The EIB has financing exposure in structurally comparable environments across the Mediterranean and sub-Saharan African corridors.

The second framework gap is in the disbursement and repayment chain. EIB project financing in partner countries is typically disbursed through correspondent banking arrangements with local financial institutions assessed for creditworthiness, regulatory standing, and anti-money-laundering compliance as part of the EIB's due diligence process. As stablecoin payment infrastructure displaces correspondent banking in the same corridors, the disbursement chain the EIB relies upon becomes less central to the transactional flow of the project economy. Repayment flows may increasingly originate from stablecoin-denominated revenue converted through exchange infrastructure the EIB did not assess and whose compliance status the Bank's anti-money-laundering framework did not evaluate.

The EIB's risk management functions are capable of developing frameworks to address these gaps. The question is the institutional timeline for doing so relative to the speed at which the stablecoin payment layer is expanding into the corridors where the Bank operates. The EIB's policy development processes run on cycles calibrated to regulatory change in European financial markets. The stablecoin layer is not calibrated to those cycles.

CONCLUSION

The European Investment Bank will not encounter the GENIUS Act through a formal regulatory notification. No counterparty will present it with a stablecoin-denominated liability requiring immediate reclassification. No supervisory body will issue a remediation directive. The collision this paper describes is structural and cumulative; the kind of change that becomes legible in retrospect from a point where it was, in prospect, merely inconvenient.

The reserve mandate creates a structural preference for US Treasury paper in the allocation of a reserve pool projected to reach \$2 trillion within five years. Every dollar held in a qualifying stablecoin reserve is a dollar unavailable for allocation to EIB paper, to European sovereign bonds, or to any non-US-dollar instrument. The aggregate effect on EIB funding costs will be measurable before it is large; it will be large before any remediation is available within the Bank's existing institutional toolkit.

The disbursement corridor problem is more immediate and less tractable. The Mediterranean, Eastern European, and sub-Saharan African economies where the EIB operates are the same economies where dollar-denominated stablecoin payment infrastructure presents its strongest adoption case: incomplete banking infrastructure, dollar-denominated trade norms, and mobile-first financial access. The EIB will be disbursing euros into economies that are building their operational payment layer on a dollar-denominated private monetary infrastructure. Its financing agreements were written for a different monetary world. Its credit models were calibrated to a different monetary world. Its disbursement architecture assumed a different monetary world.

The EIB's institutional durability has historically rested on its ability to operate through monetary disruption rather than being captured by it. Its founding coincided with the operational peak of the Bretton Woods system. Its growth continued through the 1971 Nixon shock, the Exchange Rate Mechanism crises, the 2008 financial collapse, and the sovereign debt crisis that tested the monetary union at its structural limits. Each of those disruptions altered the price or stability of the monetary architecture in which the Bank operated. The current disruption is different in kind: it is the construction of a competing monetary layer beneath the sovereign architecture, privately issued, dollar-denominated, and embedded by legislative design in the payment infrastructure of the world's leading reserve currency economy.

The Bank's existing governance and treasury instruments were built for disruptions to the architecture. The GENIUS Act is a disruption of the architecture. Whether the EIB's governing bodies have framed the question in those terms is not yet evident from the Bank's published strategic documentation. The structural logic of what the Act constructs suggests they will need to.

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The Sovereign Compact is a working paper series of The Cantillon Institute examining the implicit agreement between multilateral capital institutions and the sovereign states they finance. Working Paper No. 2 will examine what happens to public-private partnership financing when the payment infrastructure beneath it is privately issued.