

New World for Money, Banking & the Economy

Lawrence Goodman

President – Center for Financial Stability

Banking New York Conference

Tarrytown, NY

April 2, 2015





Dialog • Insight • Solutions

Ideas

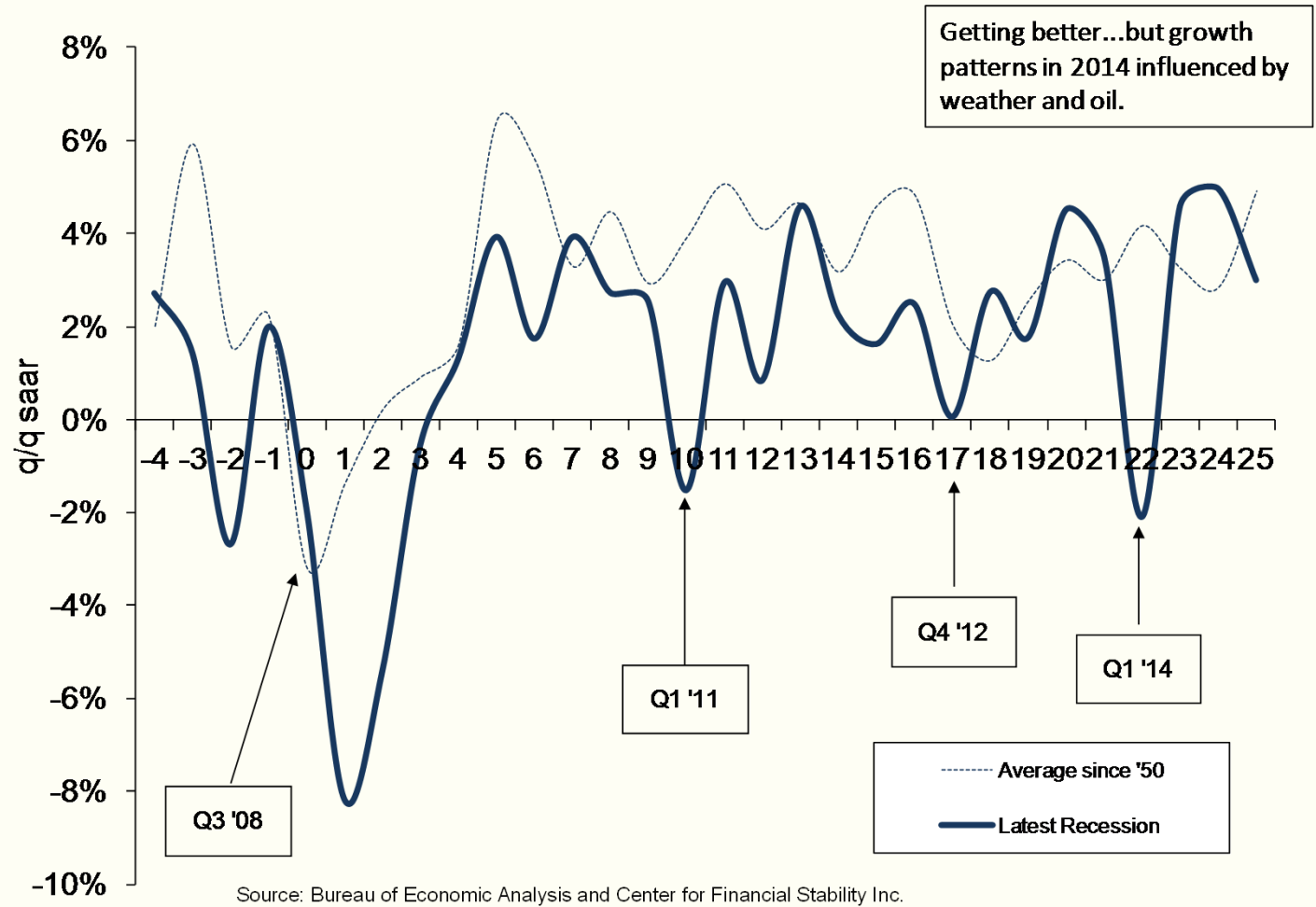
New uses of money and technology will reshape the banking industry and business cycle.

- I. Challenges for the economy**
- II. The impact of Fed policy and markets on banks**
- III. Technology and Finance: Risks and Opportunities**



Dialog • Insight • Solutions

Money and banking restraints on GDP growth

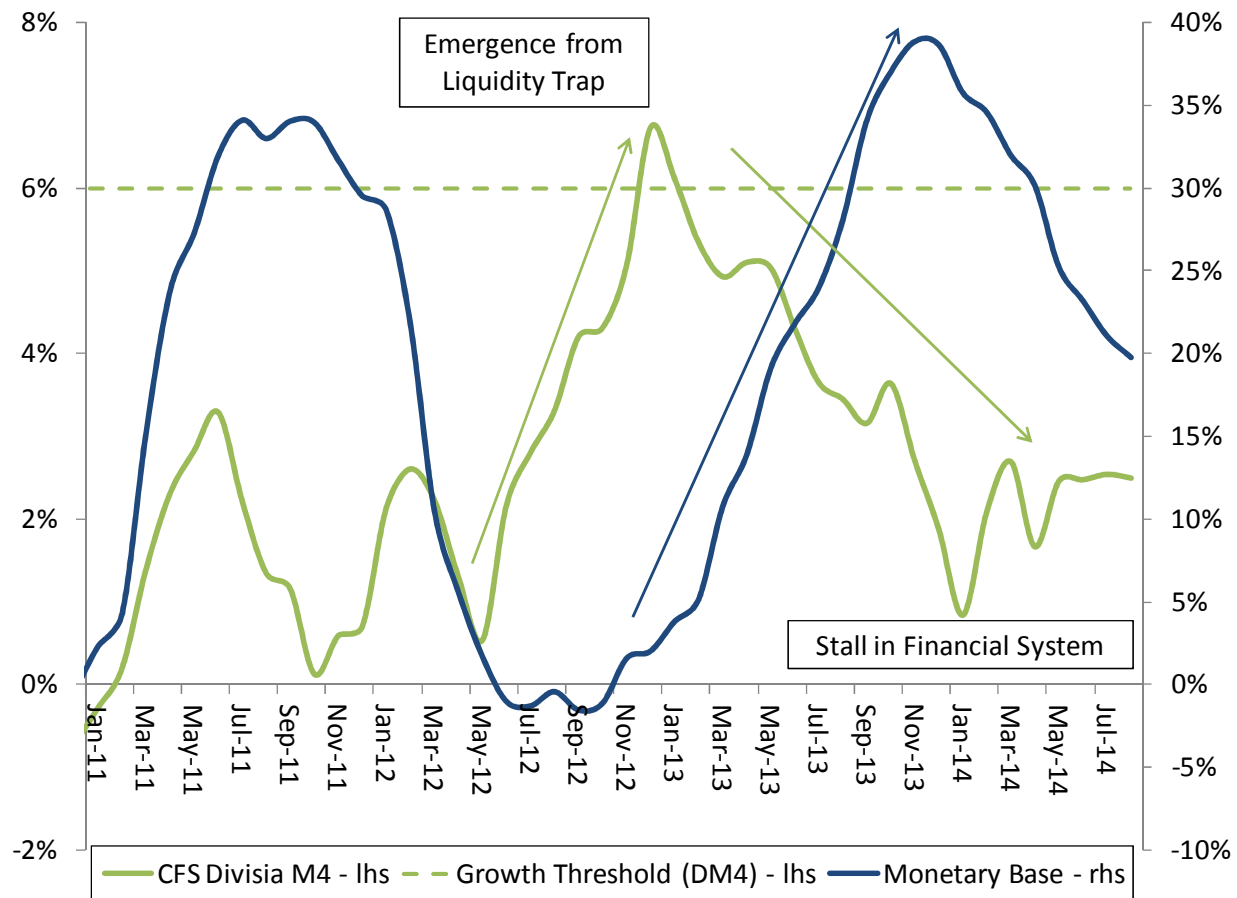
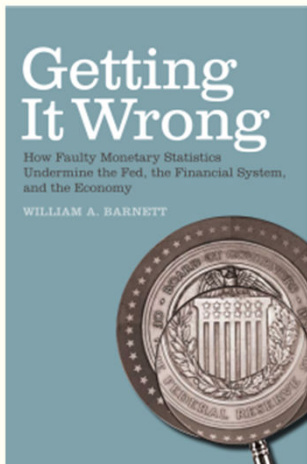


Source: Bureau of Economic Analysis and Center for Financial Stability Inc.



Dialog • Insight • Solutions

It's the Financial System that Matters: Monetary Ease and CFS Divisia Financial Data (y/y)



With thanks to William Barnett, Director of Advances in Monetary and Financial Measurement at the Center for Financial Stability Inc.
Source: Federal Reserve Board, Bankrate, and the Center for Financial Stability.

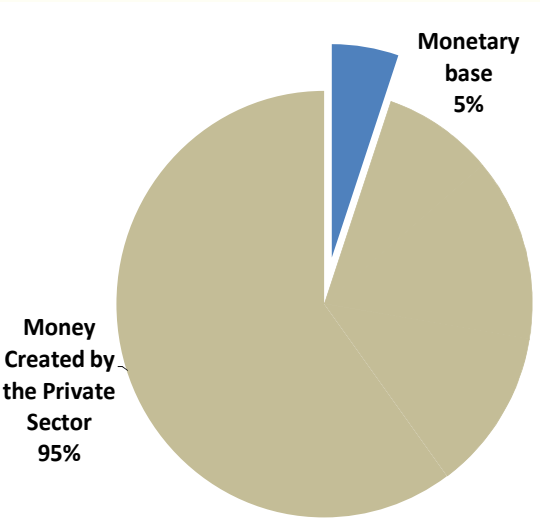


Dialog • Insight • Solutions

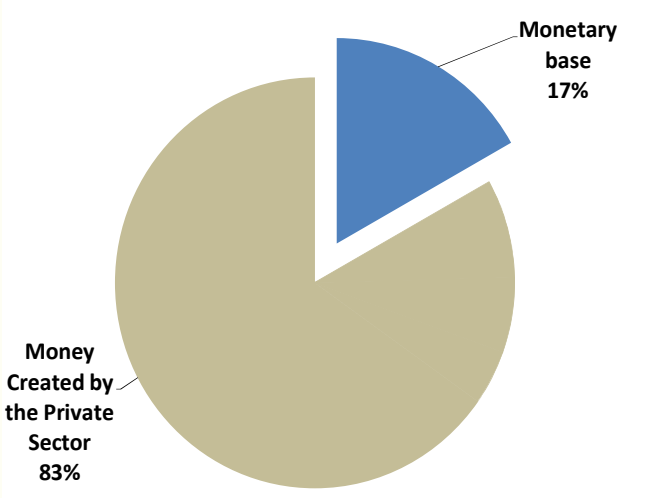
About money, banking and growth...today

Until banks and financial institutions grow the economy will be flying on one engine.

**Total Money Supply in the US
(Dec 2006)**



**Total Money Supply in the US
(Feb 2015)**





Dialog • Insight • Solutions

Fed influence on long-term interest rates: Community banks are more vulnerable

**Net Interest Income,
% net operating
revenue**

Community Banks:
80%

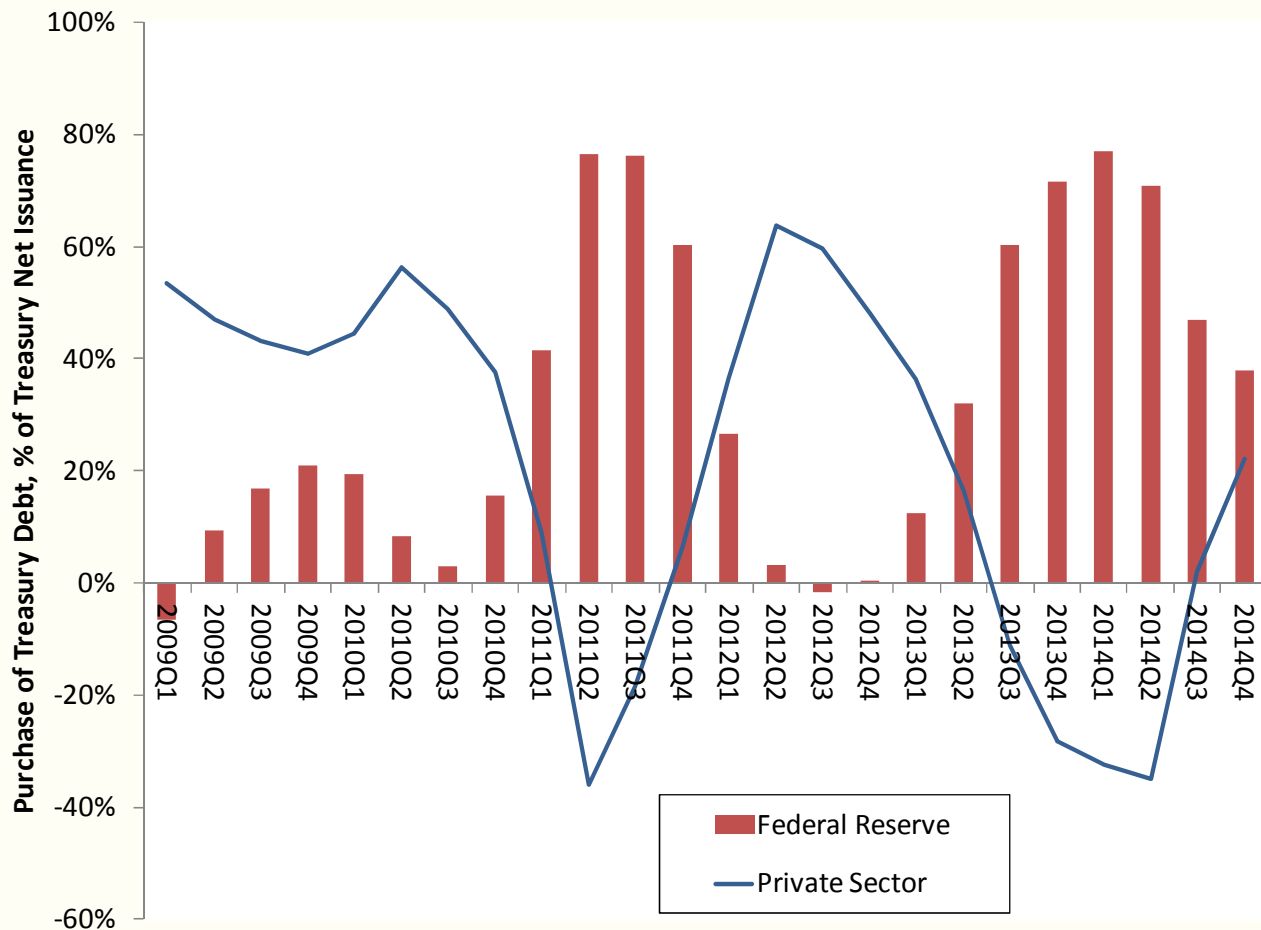
Noncommunity Banks:
67%

Source: FDIC.

**“Demand for U.S.
Debt Is Not Limitless”**

The Wall Street Journal
March 28, 2012

<http://online.wsj.com/articles/SB10001424052702304450004577279754275393064>



Source: Federal Reserve Board and the Center for Financial Stability.

1/ Cyclical peak to trough in months.

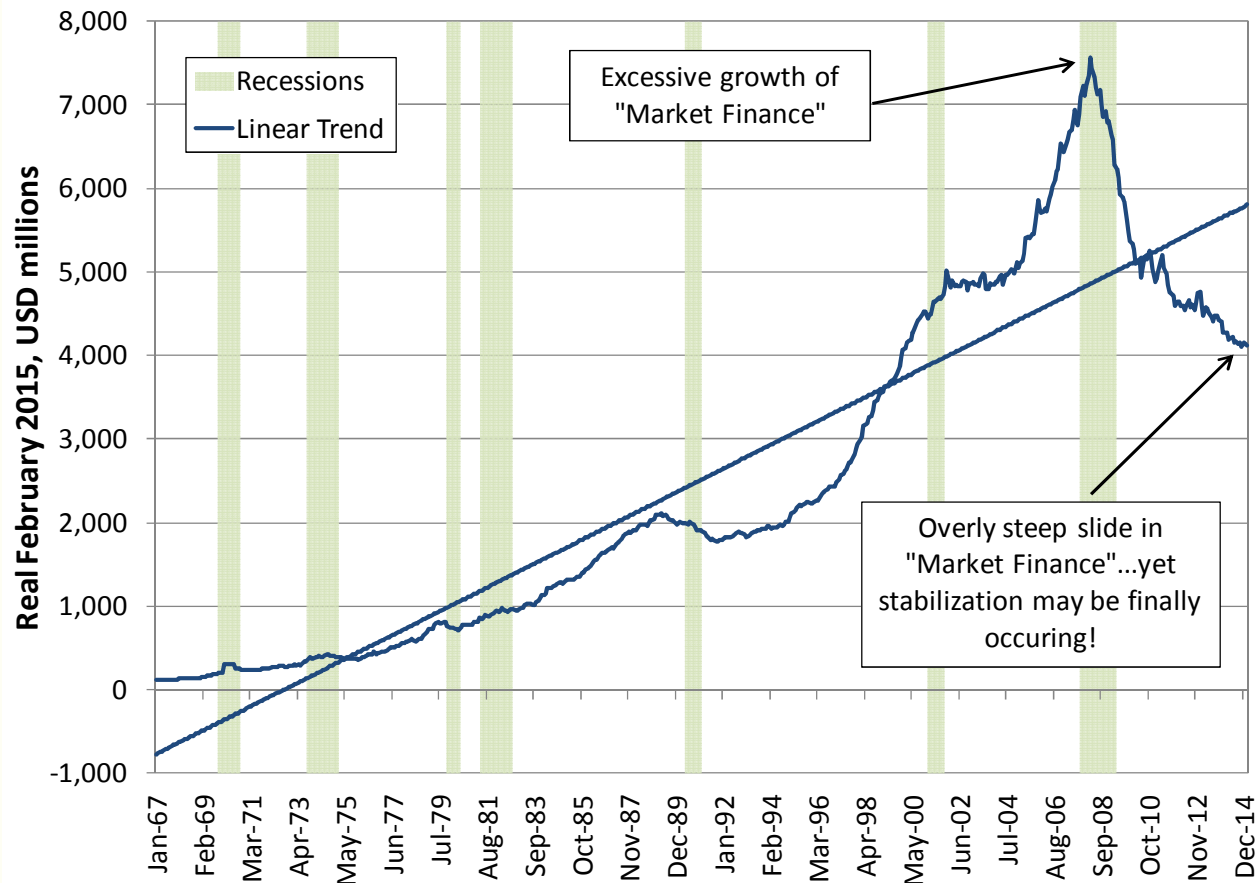
Dialog • Insight • Solutions

Plunge in market finance (shadow banking): Vital for smaller institution assets too

**“Shadow-Credit Rise
is Good Sign”**

The Wall Street Journal
March 23, 2015

<http://www.wsj.com/articles/shadow-credit-rise-is-good-sign-1427071556>

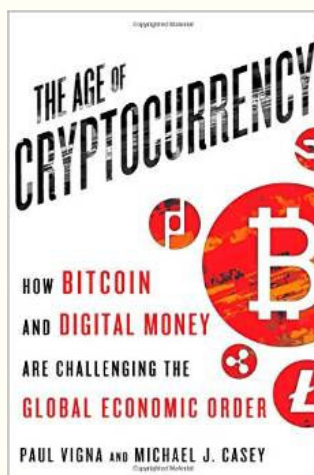


Note: The CFS definition of market finance includes: money market funds, repurchase agreements, and commercial paper.
Source: Federal Reserve Board, Bankrate, and the Center for Financial Stability.



Dialog • Insight • Solutions

Technology and Finance: Virtual Currencies and Bitcoin



- I. **Virtual Currency** – doubt, enthusiasm, and intrigue.
- II. **Payment Systems** – money, technology, and costs.
- III. **Risks** – trust, network, tech, incentives, and regulatory.
- IV. **History and the long term** – Ned Gramlich, airline miles, and League of Legends.



Dialog • Insight • Solutions

Conclusion

- I. Policy response has restrained growth.
- II. The future will be determined by evolution of the symbiotic relationship between banks and economy.
- III. Revolutionary change in money and technology will reshape banks at an increased pace.



Dialog • Insight • Solutions

About CFS and Disclosure

The Center for Financial Stability is an independent, nonpartisan, and nonprofit think tank dedicated to financial markets for the benefit of investors, officials, and the public.

This publication reflects the judgments and recommendations of the author(s). They do not necessarily represent the views of Members of the Advisory Board or Trustees, whose involvement in no way should be interpreted as an endorsement of the report by either themselves or the organizations with which they are affiliated.

The organization's website is www.CenterforFinancialStability.org.

The Center for Financial Stability is a non-profit 501(c)(3) organization formed for educational purposes.