

Michelle Bowman:

So I'd just like to say it's really been a pleasure to be here with you, especially at the invitation of the center's executive director, my longtime good friend David Vanier. And I look forward to answering your questions in our conversation with Rena.

Rena:

[inaudible 00:00:15] for providing a very comprehensive sort of analysis on why or why not the US needs or doesn't need a CBDC and what's the research that needs to take place before we decide whether we need a US CBDC or not. So I guess in my mind, I've worked on some CBDC related research. It wasn't so much about whether we should have one or not, but trying to make sure that we do all the research so that we are ready to implement one. It's not obviously one of those things where you turn the switch on. And so can you give more of a sense of where are we today? Where is the Federal Reserve and other parts of the US government in terms of the research, the planning for a potential CBDC?

Michelle Bowman:

A great question Rena, and I think it's one that's really important and we've been thinking about it for a number of years, especially at the Federal Reserve. I know many other parts of the government and the administration have been thinking very deeply about how this development and conversation could continue and develop among the different agencies that might have some responsibility in this area. We've engaged in technological experimentation and interrogation of many different types of technologies, the development of different technologies through partnerships with different universities like the Hamilton Project. And we've seen a lot of promise with a number of the different abilities and capabilities that have been created and identified through this technical research project. So we're continuing to work throughout the Federal Reserve system to bring together our expertise within the system to work and to further all of that technological experimentation so that when the time is right we are either poised to implement or we're poised to interact with other countries' CBDCs, if that becomes the opportunity that's identified for the United States.

Rena:

And so in addition to the Federal Reserve, what other parts does... what role does Congress need to play? What role do other parts of the US government need to play?

Michelle Bowman:

So the US Treasury has been leading a working group to help to further the conversation among the other parts of the administration to have conversations about this. But as I mentioned in my speech, we are very committed to ensuring that we have clear authority to move forward should we be directed and authorized to create a CBDC. And that would have to happen from Congress from our perspective.

Rena:

You talked about our role and the role of the dollar in the global reserve system, in the global finance arena. And obviously we are very safe in terms of the US is seen as for all the reasons that you mentioned, why the dollar is the currency that's used globally. But we've gone through this time period with sanctions and there are certainly countries who are watching out and thinking about that they don't want to get in the US sanctions regime and caught up in that. So I think there are countries who are not thinking maybe an alternative would be better. Again, it's not something that's changing

tomorrow or day after tomorrow, but is that something that is of concern? I mean the Chinese are moving at a fast pace with the e-yuan, but even beyond the digital currency, it's much more of a strategic play on their digital strategy.

Michelle Bowman:

That's a great point Rena. And I think it's important to understand that each country may have different motivations for how it's engaging in the thought process of the value of a CBDC or whether there isn't a value of a CBDC exploration for their particular circumstances. As you noted about sanctions in particular, that may be motivating some countries. I think as we are looking at all of the public policy aspects, that certainly is part of the conversation that comes up as we're thinking about what the potential policy conversations might need to incorporate.

Rena:

Yeah, one of the things you talked about sort of technology and speed and everything being available 24/7, if we had a digital currency, a central banker digital currency, things could be 24/7. But then I'm thinking of Silicon Valley Bank where because of technology, whether it was on Slack channels or wherever, the word gets out really quickly and deposits can go out. Are some speed bumps a good thing?

Michelle Bowman:

I think that's an excellent observation and it's something I tried to touch on a little bit in my remarks about the velocity of payments and by creating instant payment, the potential for a framework that enables instant payments, that we could be creating vulnerabilities in our banking system and that there would need to be safeguards and guardrails put in place to ensure that we are not facilitating an environment that could lead to that as well. And obviously these things are new developments and so as we're thinking about all of the different aspects that need to be discussed and considered, this is certainly one that's very important.

Rena:

But you talked about the role of the banking sector and financial intermediaries and how important that is. Are the banks pushing back against CBDC? Are they coming in to you and making a case for why it's not needed or how it should be structured?

Michelle Bowman:

I think there's a broad concern about the intermediation or the potential for disintermediation within the banking sector. As I mentioned in my remarks, we have a very strong, very mature, effective and efficient banking sector that provides services broadly to people in the United States and throughout the world. It's very important that we not disrupt or disable our current financial system because we think a new technology might be more interesting. But certainly the idea and opportunity to think about how those things might interact together is something that we should be thinking about in considering whether ultimately we decide to move forward or we are directed to move forward with a CBDC or not.

Rena:

So talking about the banking sector moving away from CBDCs a little bit, there's been a little bit of volatility in the banking sector that has impacted the economy and financial markets. Do you think it's calmed down and do you think more problems emerging or it's calmed down?

Michelle Bowman:

Well, I think that's another excellent question, Rena. I think that's something that we are watching very closely to ensure that the conditions as they appear to be now, which is quite calm and that things have returned essentially to normal, that we will continue to see normalcy moving forward. But we are clearly very attuned to any challenges or changes that might require us to be responsive to any conditions that might emerge.

Rena:

And so based on what's happening in the economy and the economy tending to slow down and some people obviously talking about a recession, does that mean that the Federal Reserve doesn't have to worry so much about cutting interest rates and the economy is taking care of the markets are taken care of things themselves or both are still needed?

Michelle Bowman:

I think it's important to understand how the conditions that existed in the wake of the failure of Silicon Valley Bank and Signature Bank may affect banking conditions going forward. I think we've been seeing differences in expectations for economic conditions moving forward and my thought is that we'll probably see things continue in the same vein that they were prior to the failure of those two institutions and that those similar conditions will continue to affect the economy in ways that we have yet to understand.

Rena:

And I assume there's a lot of work going on at the Federal Reserve right now in terms of thinking about future regulations, stress tests, how things should be changed. Can you comment on any of that?

Michelle Bowman:

Well, I think as Vice Barr has noted that there's a lot of work underway to take a look at our regulatory system and different aspects of that going forward, I assume that work will continue as he had articulated prior to the banking events.

Rena:

Fantastic. I know you are on a tight timeline, but we want to squeeze in a few questions. If you have a question, we would love to specially hear from our students, there's a microphone, just raise your hand and we have a question here. Evan.

Evan:

Governor Bowman, thanks for being here. I wanted to ask you about a few blockchain projects that are around there. Currently, there's nine projects, cross-border projects which are wholesale in nature and seven projects which are retail in nature, which are being developed for cross-border interaction. Do

you think US is falling a bit behind on these things since they're not involved in any of these projects and countries like France, Switzerland, Canada, and even Singapore and Hong Kong are involved in these cross border projects?

Michelle Bowman:

I think it's very important that we're aware of these projects and the outcomes as they're being developed and what the promise might be with some of these experiments as they're moving forward. I think it's important because we have such a responsibility to the stability of our financial system that we don't get excited about the fear of missing out. We need to ensure that whatever we are doing, we are doing methodically, thoughtfully, and carefully. So is not to disrupt the stability of the financial system, but it's exciting to see all of these developments happening around the world and I'm as excited as you are to see the outcomes. So I look forward to following that.

Rena:

Yeah, please introduce yourself.

Luke:

Hi. Yeah, my name is Luke. Thank you so much for your presentation here. You spoke about some of the negative risks of substitution, but on the positive side, it seems like most of the upside comes from in the wholesale markets as you said, but the financial inclusion sounds like doesn't look like there's much upside there. Do you think there are any opportunities for everyday Americans that could come from a CBDC?

Michelle Bowman:

I think it's too early to tell. I think at this point what my understanding of and as I see it, what we see initially as an opportunity could be for that wholesale side of that sector. I think it's very important that we continue to have an intermediated banking sector or and finance sector where we have banks that are providing those direct relationships to individuals. So that would be ultimately were we to consider something along those lines that would be something that I would be in very interested in learning more about, but to ensure that there is that intermediation of services that might be provided.

Rena:

There's a question over here and we'll have to make that our last question.

Rohan Mystery:

All right. First of all, thank you for taking time to speak to us today. I'm Rohan Mystery. I'm a freshman here at the business school. And so as we are seeing other nations also tackle the similar question when it comes to CBDCs. At the Fed, how are you weighing the decision of implementing a US CBDC in reaction to other nations issuing their own CBDC? And if the US were to issue their own CBDC, how do you see this impacting the future competitiveness of the US dollar in the global marketplace?

Michelle Bowman:

Well, I spoke a little bit about the strength of the US dollar and it relies on a number of factors that exist independent of a CBDC. I think it's very important that we understand how other countries are thinking about and considering the use cases and values that could be added by the creation of a CBDC. And as

they're continuing to develop or deciding to step back from which I understand some countries are, that have thought that that would be a path that they would like to pursue, but now are stepping back a little bit from acting so quickly. I think it's important that we are cautious in how we're approaching it, but that we're very curious about the experiences of other countries as they're experimenting, interrogating, and trying to understand how a CBDC could be best used in their jurisdictions. So that's a great question. Thank you.

Rena:

Well, please join me in thanking Governor Bowman.

Michelle Bowman:

Thank you.

Rena:

That was fantastic.

Michelle Bowman:

Thanks so much. Thanks a lot.

Rena:

Thank you for coming.

Michelle Bowman:

Thank you.

Rena:

And thank you everyone. We look forward to seeing you at other Psaros Center events.