

Moody's sees greater usage of banking channel

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Expects most first-time users to become more sticky customers



Mumbai, November 16:

The withdrawal of the ₹ 500 and ₹ 1,000 denomination bank notes may provide a strong impetus to greater use of the formal financial system — the banking system — for commercial transactions, especially in the retail segment, according to Moody's Investors Service. The global credit rating agency said the government move would see a large proportion of the population accessing banking channels at least once, so as to convert their existing holdings into the new legal tender. The demonetised notes account for around 86 per cent of the existing currency in circulation and around 9.5 per cent of GDP.

For first-time users, studies have shown that they tend to keep using the banking system once they initiate the process. Therefore, Moody's expects a material proportion of first-time/very infrequent users becoming more sticky customers of banks. This development should also benefit the banking system in the form of higher level of low-cost deposits, although this benefit may not be apparent in the near term.

The rating agency assessed that currently banks are experiencing significant inflows into their deposit base as customers deposit their existing holdings of the demonetised notes, a trend that will continue for the next three to four weeks.

“But as cash availability increases and the current restrictions on cash withdrawals are lifted, sharp declines in the deposit base will occur in the near future. “Once this volatility subsides and stability is achieved, possibly around three months from now, we estimate that bank deposits will increase by around 1-2 per cent compared to what they would have been without the demonetisation scheme,” said Moody's.

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