National Bank of Ukraine

Bank Funding Survey

Q4 2022

In Q3, the survey of banks showed a continued growth in client deposits. Corporate and retail deposits increased at the majority of financial institutions. Interest rates on corporate deposits rose markedly. At the same time, respondents noted a drop in wholesale funding, and demand for it significantly declined. Banks expect an increase in client deposits, especially in retail ones. Respondents believe the cost of such funding will grow. The overall maturity of deposits will decline further. The share of FX liabilities has grown for the first time since the launch of the survey. However, the financial institutions see this trend as temporary. Banks reported no change in capital over the past 12 months, but still 45% of respondents expect it to decrease in future, particularly due to adverse developments in the economy and regulatory requirements.

Liabilities

In Q3 2022, banks noted growth in funding volumes, despite the lasting war. An increase in retail deposits was reported by three quarters of respondents and a rise in corporate deposits by around 65% of respondents. Wholesale funding – bonds, loans from international financial institutions (IFIs) or parent banks, long-term refinancing, etc. – has been on the decline for two quarters running.

Regulatory requirements and current interest rates encouraged banks to take more retail deposits. However, respondents emphasized that supply of retail deposits had decreased compared to three previous surveys. Attractive interest rates and high supply from businesses influenced volumes of corporate deposits.

In Q4, the financial institutions expect deposits to continue growing, with the growth being more pronounced in the retail segment than in the corporate one. Volumes of wholesale funding are expected to decline.

The share of banks planning to raise wholesale funding in future keeps shrinking. They mostly perceived long-term refinancing loans from the NBU as a key funding facility. Only 9% of respondents relied on funding from IFIs. Banks intending to raise wholesale funding are primarily planning to do so within one year, but not in the next quarter. Around 10% of respondents expect to repay their debts ahead of schedule.

Respondents reported an overall increase in the average cost of funding in Q3. This mostly concerned corporate deposits. The share of banks that recorded a rise in interest rates on retail deposits and wholesale funding increased only slightly.

In Q4, respondents anticipate that the cost of funding from both businesses and households will grow significantly. The cost of wholesale funding will not grow as quickly.

For the first time since the launch of the survey, the financial institutions have reported their FX liabilities to rise. The maturity of funding decreased somewhat, albeit less than in previous periods. In the last three months of 2022, banks envisage a contraction in the share of clients' FX deposits and deposit maturity.

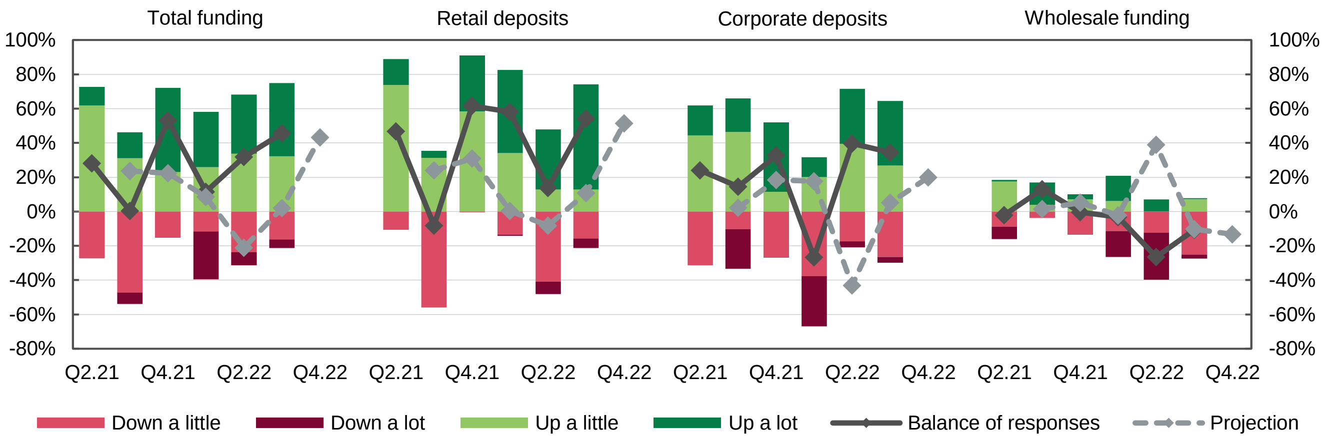
Capital

Total capital has remained unchanged over the past 12 months, but some large banks reported a slight decrease. In the next 12 months, 45% of the financial institutions expect their capital to decline. Back in Q2, this was expected by 63% of banks in, which means that their expectations of changes in capital have become more optimistic.

Respondents cited changes in the economic environment, the size of assets, and regulatory requirements as the main drivers of the anticipated decline in capital. In contrast to two previous quarters, banks did not expect losses to cause a capital decrease in the next 12 months.

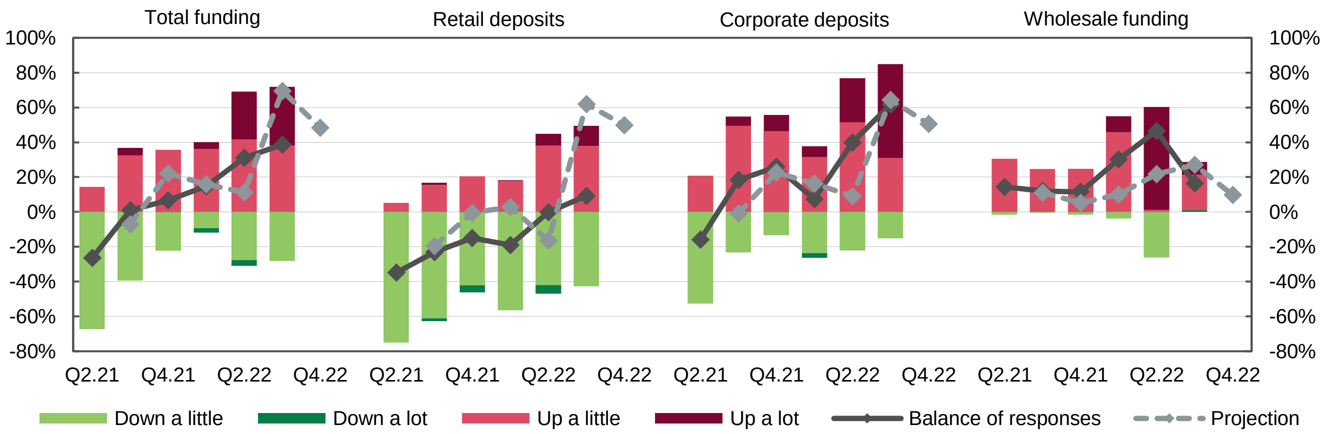
Over the past 12 months, the cost of capital increased on average for 97% of respondents. Less than a quarter of banks expect an increase in the cost of capital in the next 12 months.

Figure 1. Changes in bank funding



* A positive balance of responses indicates an increase in funding. The procedure for calculating the balance of responses is presented in the Annex. Methodology and survey results.

Figure 2. Changes in the cost of bank funding



* A positive balance of responses indicates an increase in the cost of funding.

Figure 3. Impact of factors on changes in the volume of funds raised (balance of responses*)

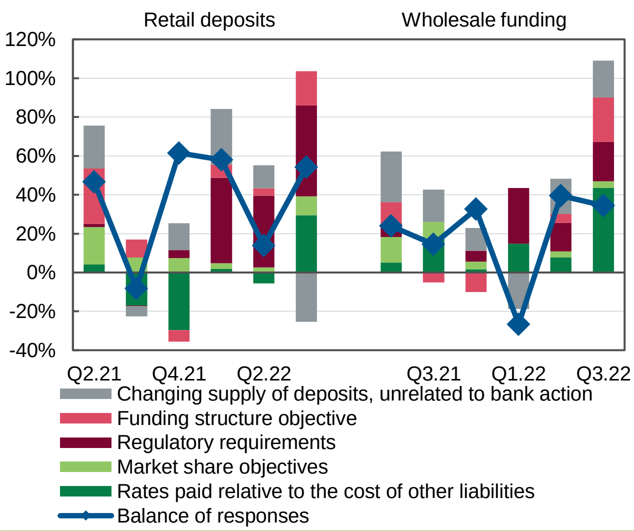
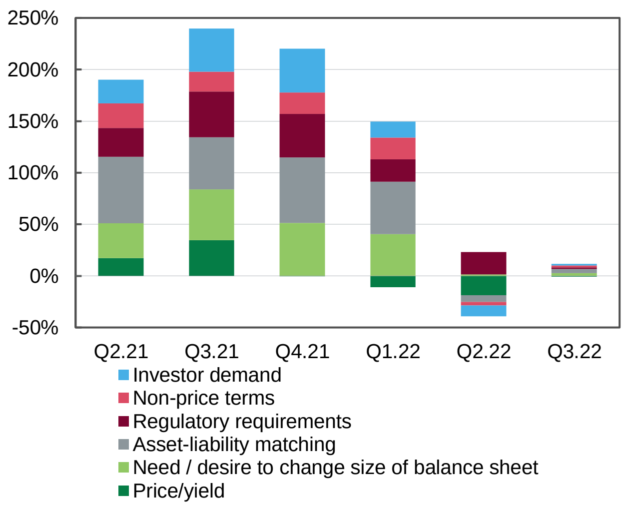


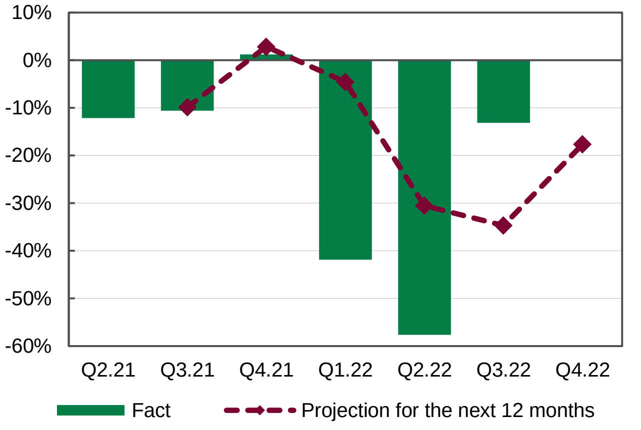
Figure 4. Impact of factors on changes in the volume of future wholesale funding (balance of responses*)



* A positive balance of responses indicates a positive impact of the factor on the funding growth.

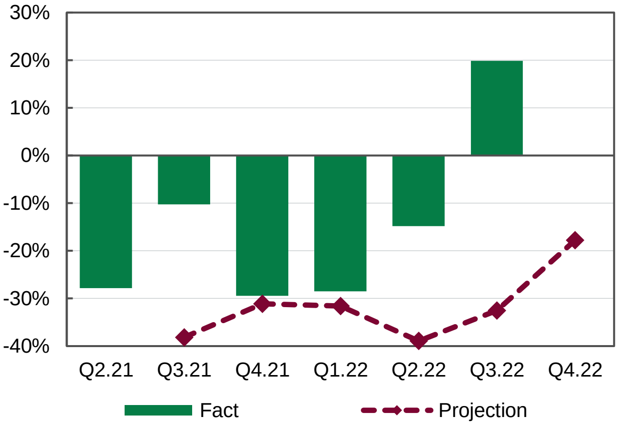
The line in the diagram is the balance of responses about the amount of funds raised. The bars denote the effects of factors on the change in the indicator (the total value of the indicator may not always equal the sum of the contributions of individual factors).

Figure 5. **Change in the maturity of funds raised by banks (balance of responses*)**



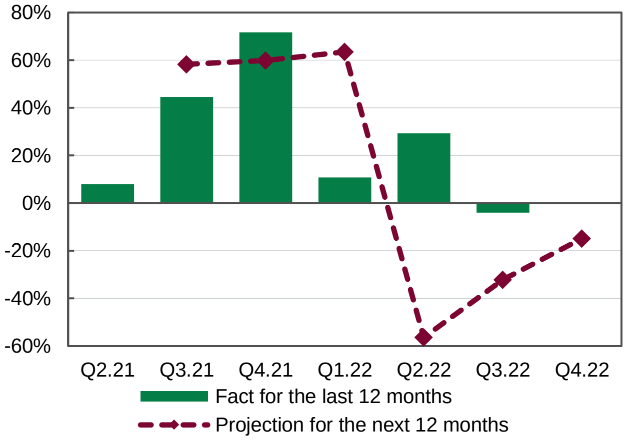
* A positive balance of responses indicates an increase in maturity of funding.

Figure 6. **Change in the share of FX funding (balance of responses*)**



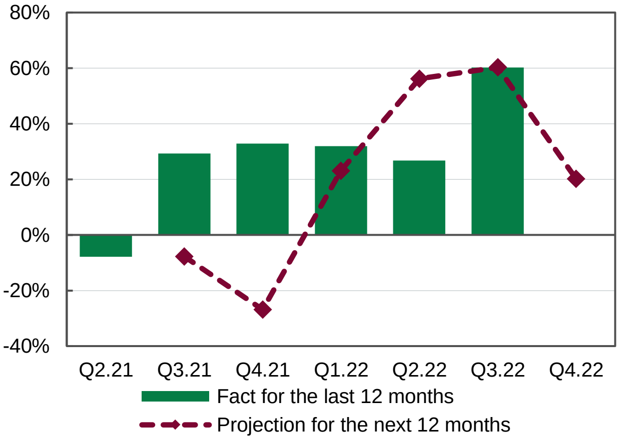
* A positive balance of responses indicates an increase in the share of FX funding.

Figure 7. **Change in banks' total capital (balance of responses*)**



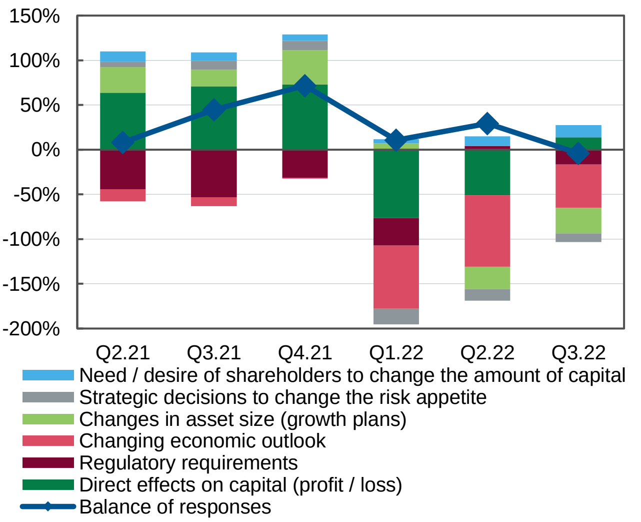
* A positive balance of responses indicates an increase in total capital.

Figure 8. **Change in banks' cost of capital (balance of responses*)**



* A positive balance of responses indicates an increase in cost of capital.

Figure 9. **Impact of factors on changes in banks' capital (balance of responses*)**



* A positive balance of responses indicates a positive impact on changes in banks' capital.

The line in the diagram is the balance of responses about changes in capital. The bars denote the effects of factors on the change in the indicator (the total value of the indicator may not always equal the sum of the contributions of individual factors).

Annex. Methodology and survey results

Each responding bank was represented by a liabilities manager who filled out an electronic questionnaire.

For questions where responses were on an ordinal scale (e.g., from "significantly increased" to "significantly decreased"), a balance of responses indicator was calculated.

The questionnaire covers changes in the past three months and expected changes over the quarter that follows the reporting quarter. The questions from the "Capital" section concern changes during the 12 months before the survey and the 12 months after.

To calculate aggregated results for all banks, each response is assigned a score based on the respondent's answers and their weight in the total sample. The scores are presented on a range from -1 to 1, depending on the direction of change of the indicator. Responses indicating a significant change of the indicator are assigned a higher score than responses reflecting an insignificant change. The response "grew a lot" will have a score of 1, and the response "grew a little" a score of 0.5. Every estimate was assigned the respective respondent's weight in the sample, which depended on their share in the liabilities or retail/corporate deposits in the sample. The total score for all banks is the balance of responses, which can be interpreted as the difference between the weighted share of respondents reporting an "increase" in a certain index, and the weighted share of respondents reporting a "decrease" in the index. The balance of responses can range between -100% and +100%. A positive balance indicates that respondents generally assess/expect a change in the indicator (the volume and cost of funding/capital, the maturity of borrowings, etc.) towards an increase/strengthening compared with the previous quarter. More information on how to interpret the balance of answers to each question is presented in the notes to the diagrams.

Table. Survey Findings

Balance of responses						Weighted share of responses, Q3 2022				
Q2.21	Q3.21	Q4.21	Q1.22	Q2.22	Q3.22					
1	2	3	4	5	6	7				
I. Liabilities										
1. How did funding change during the quarter that ended?										
						Down a lot	Down a little	Same	Up a little	Up a lot
Net change										
28%	0%	53%	12%	32%	46%	5%	16%	4%	32%	43%
Retail deposits										
47%	-8%	62%	58%	14%	54%	6%	16%	4%	13%	61%
Corporate deposits										
24%	14%	33%	-27%	40%	34%	3%	26%	6%	27%	38%
Wholesale funding										
-2%	13%	0%	-3%	-26%	-11%	2%	25%	65%	7%	1%
2. How will funding change in the next quarter?										
						Down a lot	Down a little	Same	Up a little	Up a lot
Net change										
24%	22%	8%	-21%	2%	43%	0%	19%	0%	56%	25%
Retail deposits										
24%	31%	0%	-8%	11%	51%	0%	14%	5%	45%	36%
Corporate deposits										
2%	18%	18%	-43%	5%	20%	0%	37%	2%	46%	15%
Wholesale funding										
1%	5%	-2%	39%	-10%	-13%	2%	23%	75%	0%	0%
3. How did the average cost of funding change over the quarter that has just ended?										
						Down a lot	Down a little	Same	Up a little	Up a lot
Net change										
-26%	1%	7%	15%	31%	39%	0%	28%	0%	38%	34%
Retail deposits										
-35%	-23%	-15%	-19%	0%	9%	0%	43%	8%	38%	12%
Corporate deposits										
-16%	18%	26%	7%	40%	62%	0%	15%	0%	31%	54%
Wholesale funding										
14%	12%	12%	30%	47%	16%	1%	0%	71%	20%	7%
4. How will the cost of funding change in the next quarter?										
						Down a lot	Down a little	Same	Up a little	Up a lot
Net change										
-7%	22%	16%	11%	70%	48%	0%	0%	12%	80%	8%
Retail deposits										
-20%	-1%	3%	-17%	62%	50%	0%	0%	8%	85%	7%
Corporate deposits										

1	2	3	4	5	6	7				
-1%	23%	16%	9%	64%	51%	0%	0%	18%	64%	19%
Wholesale funding										
11%	5%	10%	22%	27%	10%	0%	1%	79%	20%	0%
5. How did these factors affect the amount of funding from households during the quarter that has just ended?										
						Had a significant negative impact	Had a slight negative impact	No impact	Had a slight positive impact	Had a significant positive impact
Banks' demand factors										
Rates paid relative to the cost of other liabilities										
4%	-17%	-30%	2%	-6%	29%	0%	5%	53%	18%	23%
Market share objectives										
19%	8%	7%	3%	3%	10%	0%	0%	80%	20%	0%
Regulatory requirements										
2%	0%	4%	44%	37%	47%	0%	0%	42%	21%	36%
Funding structure objective										
29%	9%	-6%	7%	4%	18%	0%	0%	73%	18%	9%
Depositors' supply factors										
Changing supply of deposits, unrelated to bank action										
22%	-5%	14%	29%	12%	-25%	10%	35%	51%	1%	2%
6. How did these factors affect the amount of corporate deposits during the quarter that has just ended?										
						Had a significant negative impact	Had a slight negative impact	No impact	Had a slight positive impact	Had a significant positive impact
Banks' demand factors										
Rates paid relative to the cost of other liabilities										
5%	18%	2%	15%	8%	43%	0%	2%	35%	37%	26%
Market share objectives										
13%	8%	4%	0%	3%	4%	0%	0%	94%	6%	1%
Regulatory requirements										
7%	0%	6%	29%	15%	20%	0%	0%	75%	10%	15%
Funding structure objective										
11%	-5%	-10%	0%	5%	23%	0%	0%	65%	24%	11%
Depositors' supply factors										
Changing supply of deposits, unrelated to bank action										
26%	17%	12%	-19%	18%	19%	3%	13%	44%	23%	17%
7. How has the share of FX funding changed in the quarter that has just ended?										
						Down a lot	Down a little	Same	Up a little	Up a lot
-28%	-10%	-29%	-29%	-15%	20%	0%	22%	22%	51%	5%
8. How will the share of FX funding change in the next quarter?										
						Down a lot	Down a little	Same	Up a little	Up a lot
-38%	-31%	-32%	-39%	-33%	-18%	0%	56%	23%	21%	0%
9. How did the maturity of the funds raised in the quarter that has just ended change from the previous quarter?										
						Down a lot	Down a little	Same	Up a little	Up a lot
-12%	-11%	1%	-42%	-58%	-13%	0%	47%	32%	21%	0%
10. How will the maturity of funding change over the next 12 months?										
						Down a lot	Down a little	Same	Up a little	Up a lot
-10%	3%	-5%	-31%	-35%	-18%	0%	46%	43%	11%	0%
11. What factors have influenced plans to raise wholesale funding going forward?										
						Had a significant negative impact	Had a slight negative impact	No impact	Had a slight positive impact	Had a significant positive impact
Banks' demand factors										
Need / desire to change size of balance sheet										
34%	49%	51%	40%	1%	3%	0%	0%	95%	5%	0%
Asset-liability matching										
64%	50%	63%	51%	-7%	4%	0%	0%	94%	4%	2%
Price/yield										
17%	35%	0%	-11%	-19%	-1%	0%	6%	92%	0%	2%
Non-price terms										
24%	19%	21%	21%	-3%	2%	0%	0%	97%	3%	0%
Regulatory requirements										
28%	44%	42%	22%	22%	2%	0%	0%	97%	3%	0%
Depositors' supply factors										
Investor demand										
23%	42%	42%	15%	-11%	2%	0%	2%	92%	6%	0%
							II. Capital			
12. How has total capital changed over the past 12 months?										
						Down a lot	Down a little	Same	Up a little	Up a lot
8%	45%	72%	11%	29%	-4%	18%	34%	4%	26%	17%

1	2	3	4	5	6	7				
13. How will total capital change in the next 12 months?										
						Down a lot	Down a little	Same	Up a little	Up a lot
58%	60%	63%	-56%	-32%	-15%	38%	7%	5%	47%	3%
14. How has the cost of capital changed over the past 12 months?										
						Down a lot	Down a little	Same	Up a little	Up a lot
-8%	29%	33%	32%	27%	60%	0%	0%	2%	73%	24%
15. How will the cost of capital change in the next 12 months?										
						Down a lot	Down a little	Same	Up a little	Up a lot
-8%	-27%	23%	56%	60%	20%	0%	0%	74%	13%	14%
16. What factors will affect the change in capital over the next 12 month?										
						Significant negative impact	Slightly negative impact	No impact	Slightly positive impact	Significant positive impact
Direct effects on capital (profit/loss)										
64%	71%	73%	-77%	-51%	14%	17%	8%	8%	66%	2%
Regulatory requirements										
-44%	-53%	-32%	-31%	4%	-17%	0%	49%	38%	9%	3%
Factors affecting capital demand from banks										
Changes in economic outlook										
-14%	-10%	-1%	-70%	-80%	-49%	37%	34%	18%	11%	0%
Strategic decisions to change risk appetite										
6%	10%	10%	-18%	-13%	-10%	0%	32%	56%	12%	0%
Changes in asset size (growth plans)										
29%	19%	38%	7%	-25%	-29%	10%	44%	38%	6%	1%
Factors affecting capital supply from investors										
Need / desire of shareholders to change the amount of capital										
12%	9%	7%	5%	11%	13%	1%	0%	76%	18%	5%

About the survey

The NBU highly appreciates the banks' participation in the survey under conditions of martial law.

In July 2021, the NBU introduced a quarterly bank funding survey. The survey primarily aims to deepen our understanding of the dynamics of the volumes, structure, and costs of banks' liabilities and capital. The survey features the aggregate assessments and expectations of respondents concerning the volumes, cost, and maturities of various types of banks' liabilities and capital, and the drivers that affect these indicators.

This survey offers a review of bank lending market conditions in Q3 and expectations for Q4 2022. The survey contains generalized estimates of changes in the banks' capital ratios over the past 12 months, and expectations for the next 12 months. The survey was carried out from 16 September through 7 October 2022 among bank managers in charge of liability management. The answers were provided by 27 respondents, which jointly accounted for 95% of the banking system's total assets. The results of the survey reflect the opinions of the respondents, and are not estimates or forecasts of the NBU.

A bank funding survey with banks' expectations for Q1 2023 will be published in January 2023.