National Bank of Ukraine

Bank Funding Survey

Q3 2023

The survey of the banks shows that the volume and cost of their liabilities continued to grow in Q2 2023. Almost all financial institutions noted an increase in the cost of retail deposits and a general rise in that of corporate ones. This helped increase the volume of retail and corporate deposits, but wholesale funding declined amid unchanged demand and cost. The banks expect this trend will last in Q3. This was the second straight time respondents said they expected an increase in the overall maturity of deposits in the next 12 months. The share of FX liabilities shrank. Capital has increased in the vast majority of banks over the past 12 months. Respondents said it will rise going forward as well. The cost of capital continued to grow, but some financial institutions anticipate it will go down in the 12 months ahead.

Liabilities

In Q2, the banks' liabilities generally increased in volume. Almost all financial institutions reported an increase in clients' deposits. Wholesale funding, which includes issuing bonds, loans from international financial institutions (IFIs) or parent banks, and long-term refinancing, has been declining since the full-scale invasion of Ukraine broke out.

The banks noted that the growth clients' deposits was primarily driven by interest rates on them. Other drivers of increases in retail deposits were regulatory requirements. For corporate deposits, the growth was fueled by the supply of money from businesses themselves, financial institutions' plans to change the structure of funding, and regulatory requirements.

In Q3, the banks expect an overall increase in the volume of liabilities. According to respondents, funds will come from both people and businesses, while the volume of wholesale funding will edge lower.

In Q2, only 14% of the banks planned to raise wholesale funding in the future. This is the lowest figure since the survey's debut in 2021. However, 11% of them expect to raise wholesale funds already in Q3. Financial institutions primarily plan to take out loans from IFIs, while some expect to raise subordinated debt or loans from parent banks. The banks intend to draw in wholesale funds due to non-cost factors and plans to match the maturities of assets and liabilities. But the high cost of this funding has been restraining the demand for it.

The banks estimate that the average cost of funding rose in Q2. In a new all-time record, 95% of banks reported an increase in rates on retail deposits. The share of financial institutions that highlighted the rise in the cost of corporate deposits is smaller and shrank during the quarter. The cost of wholesale funding is mostly unchanged.

In Q3, the banks primarily expect the cost of retail deposits to grow further. But corporate deposits may become cheaper, respondents said. The cost of wholesale funding will grow somewhat.

In Q2, the share of FX funding shrank, by the banks' estimates. A significant proportion of respondents have the same expectations for the next quarter.

The maturity of funding rose for the second straight quarter. This trend will continue into the next 12 months, the banks expect.

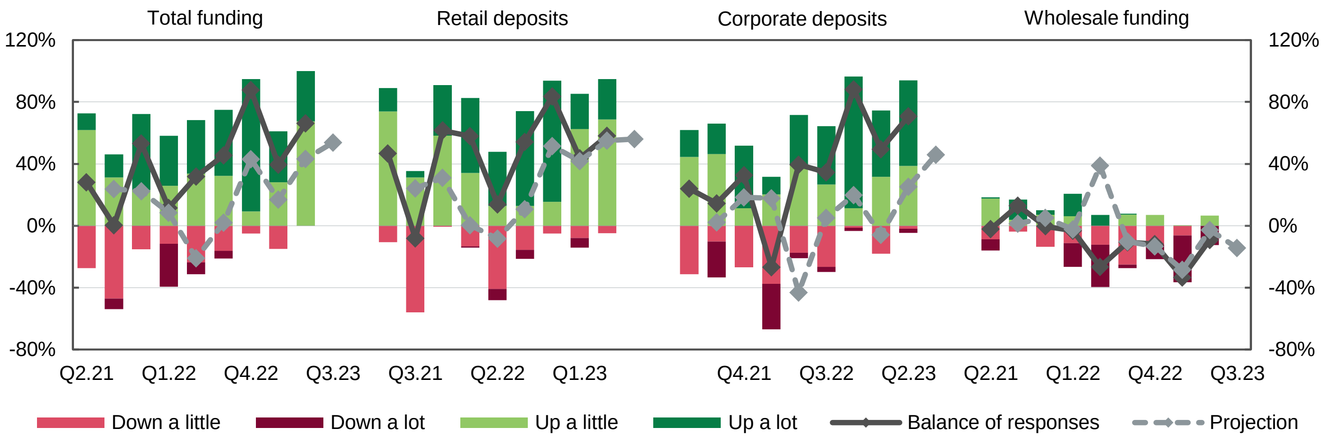
Capital

For the second quarter running, 80% of the banks pointed out that the total volume of their capital had increased over the past 12 months. Almost three-quarters of respondents expect further growth in capital in the next 12 months. The two straight quarters of positive growth projections came after a year of negative assessments.

Respondents once again cited profitability as the only factor that will drive an increase in the amount of capital in the coming 12 months. In the latest survey, the vast majority of financial institutions did not report any shareholder plans to increase capital in the next 12 months. Some respondents said that a reduction in capital is possible if regulatory requirements change and the economic situation deteriorates.

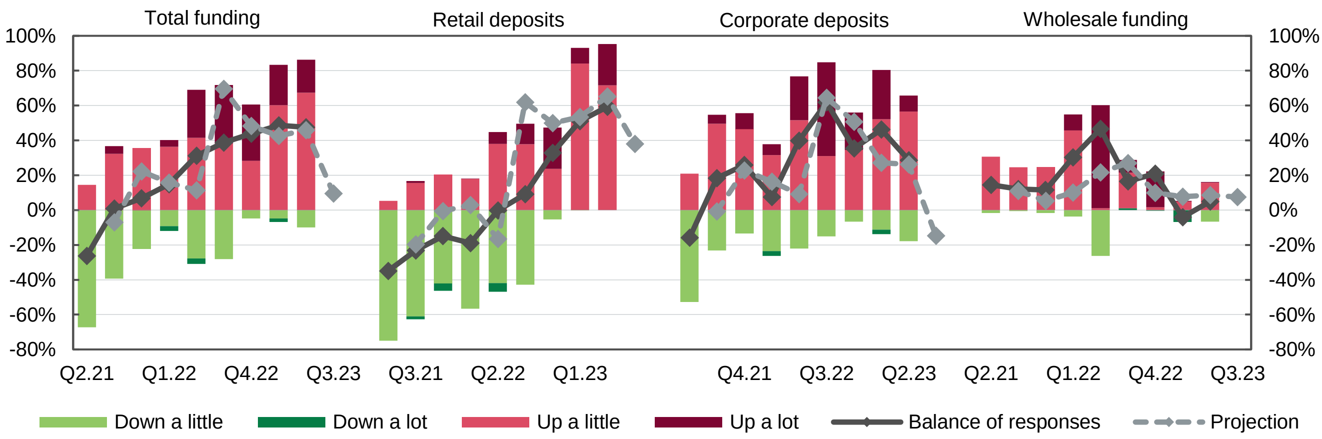
A consistently high percentage of respondents reported an increase in the cost of capital over the past 12 months. Going forward, however, the banks anticipate the cost of capital to decline somewhat.

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*)**

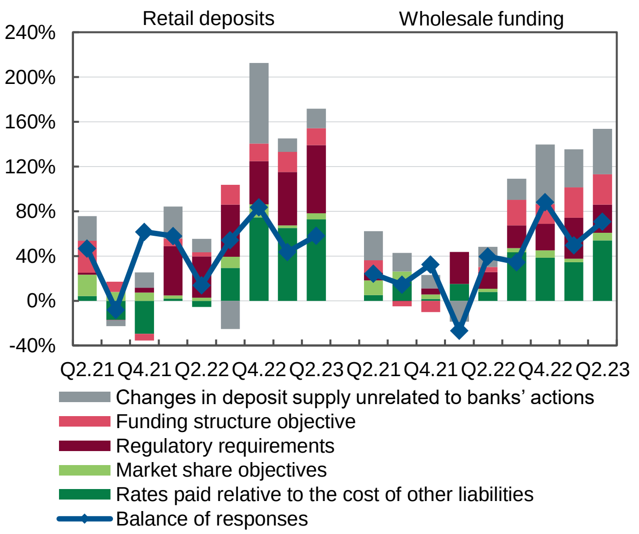
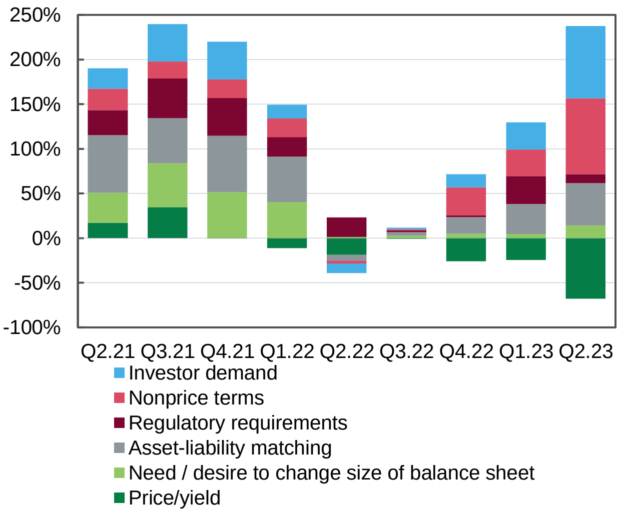


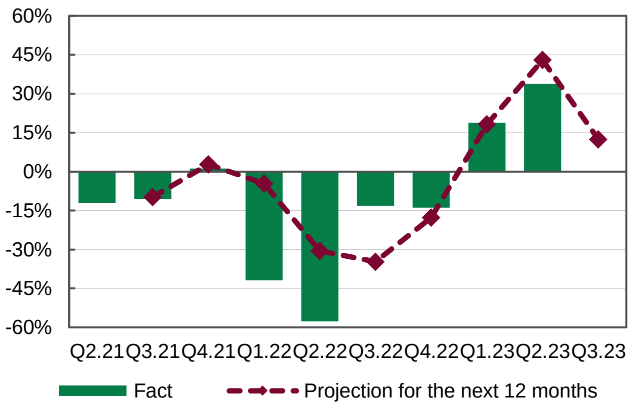
Figure 4. **Impact of factors on changes in the volume of future wholesale funding (balance of responses*)**



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

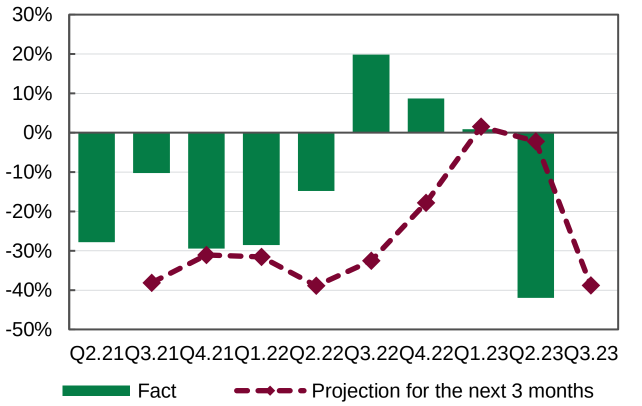
The line in the diagram is the balance of responses about the amount of funds raised. The bars denote the effects of factors on the change in the indicator (the total value of the indicator may not always equal the sum of the contributions of individual factors).

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



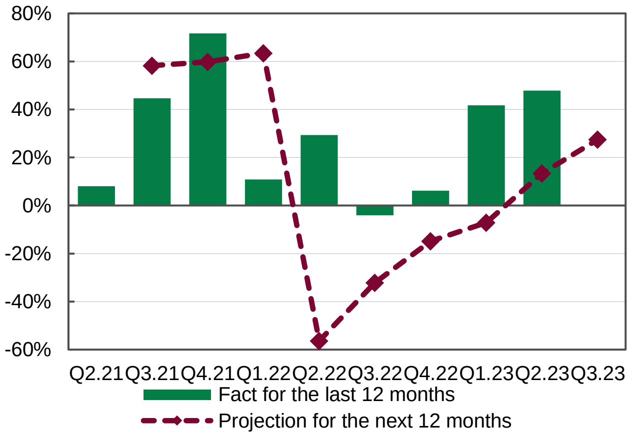
* A positive balance of responses indicates an increase in maturity of funding.

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



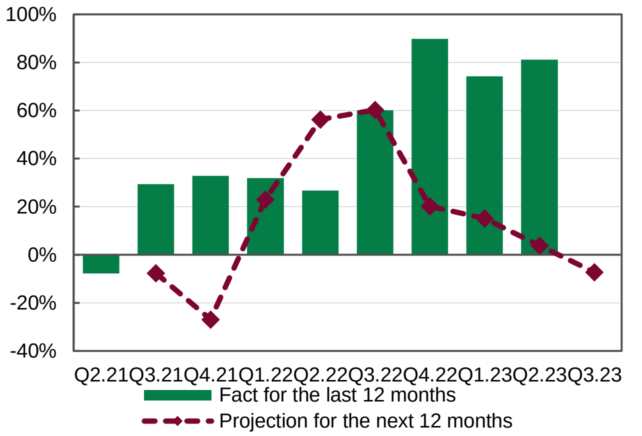
* A positive balance of responses indicates an increase in the share of FX funding.

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



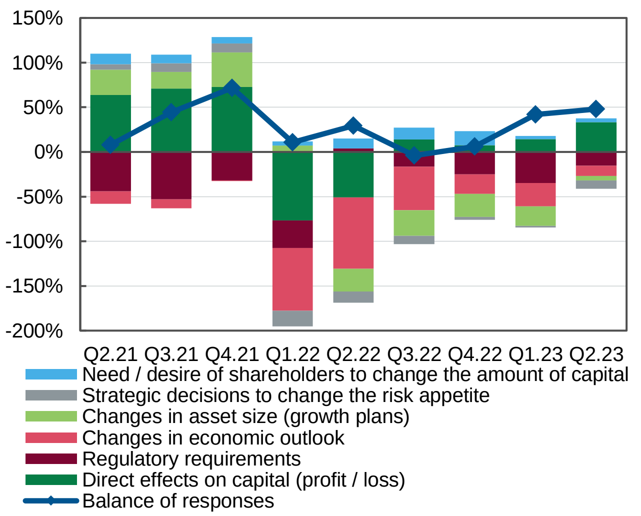
* A positive balance of responses indicates an increase in total capital.

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	2021			2022				2023	
	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2
1	2	3	4	5	6	7	8	9	10
I. Liabilities									
1. How did funding change during the quarter that ended?									
Net change	28%	0%	53%	12%	32%	46%	88%	39%	66%
Retail deposits	47%	-8%	62%	58%	14%	54%	84%	44%	58%
Corporate deposits	24%	14%	33%	-27%	40%	34%	88%	50%	71%
Оптове фондування	-2%	13%	0%	-3%	-26%	-11%	-12%	-33%	-9%
2. How will funding change in the next quarter?									
Net change	24%	22%	8%	-21%	2%	43%	17%	43%	54%
Retail deposits	24%	31%	0%	-8%	11%	51%	42%	55%	56%
Corporate deposits	2%	18%	18%	-43%	5%	20%	-6%	25%	46%
Оптове фондування	1%	5%	-2%	39%	-10%	-13%	-28%	-3%	-14%
3. How did the average cost of funding change over the quarter that has just ended?									
Net change	-26%	1%	7%	15%	31%	39%	44%	49%	48%
Retail deposits	-35%	-23%	-15%	-19%	0%	9%	33%	51%	59%
Corporate deposits	-16%	18%	26%	7%	40%	62%	35%	46%	29%
Оптове фондування	14%	12%	12%	30%	47%	16%	21%	-4%	5%
4. How will the cost of funding change in the next quarter?									
Net change	-7%	22%	16%	11%	70%	48%	43%	46%	10%
Retail deposits	-20%	-1%	3%	-17%	62%	50%	53%	65%	38%
Corporate deposits	-1%	23%	16%	9%	64%	51%	27%	26%	-15%
Оптове фондування	11%	5%	10%	22%	27%	10%	8%	9%	8%
5. How did these factors affect the amount of funding from households during the quarter that has just ended?									
Banks' demand factors									
Rates paid relative to the cost of other liabilities	4%	-17%	-30%	2%	-6%	29%	74%	65%	73%
Market share objectives	19%	8%	7%	3%	3%	10%	12%	2%	5%
Regulatory requirements	2%	0%	4%	44%	37%	47%	39%	48%	61%
Funding structure objective	29%	9%	-6%	7%	4%	18%	16%	18%	15%
Depositors' supply factors									
Changing supply of deposits, unrelated to bank action	22%	-5%	14%	29%	12%	-25%	72%	12%	17%
6. How did these factors affect the amount of corporate deposits during the quarter that has just ended?									
Banks' demand factors									
Rates paid relative to the cost of other liabilities	5%	18%	2%	15%	8%	43%	38%	34%	54%
Market share objectives	13%	8%	4%	0%	3%	4%	7%	3%	7%

1	2	3	4	5	6	7	8	9	10
Regulatory requirements	7%	0%	6%	29%	15%	20%	24%	36%	25%
Funding structure objective	11%	-5%	-10%	0%	5%	23%	17%	27%	27%
Depositors' supply factors									
Changing supply of deposits, unrelated to bank action	26%	17%	12%	-19%	18%	19%	53%	34%	40%
7. How has the share of FX funding changed in the quarter that has just ended?									
Net change	-28%	-10%	-29%	-29%	-15%	20%	9%	1%	-42%
8. How will the share of FX funding change in the next quarter?									
Net change	-38%	-31%	-32%	-39%	-33%	-18%	2%	-2%	-39%
9. How did the maturity of the funds raised in the quarter that has just ended change from the previous quarter?									
Net change	-12%	-11%	1%	-42%	-58%	-13%	-14%	19%	34%
10. How will the maturity of funding change over the next 12 months?									
Net change	-10%	3%	-5%	-31%	-35%	-18%	18%	43%	12%
11. What factors have influenced plans to raise wholesale funding going forward?									
Banks' demand factors									
Need / desire to change size of balance sheet	34%	49%	51%	40%	1%	3%	5%	5%	14%
Asset-liability matching	64%	50%	63%	51%	-7%	4%	19%	34%	47%
Price/yield	17%	35%	0%	-11%	-19%	-1%	-26%	-25%	-68%
Nonprice terms	24%	19%	21%	21%	-3%	2%	31%	30%	85%
Regulatory requirements	28%	44%	42%	22%	22%	2%	2%	31%	10%
Depositors' supply factors									
Investor demand	23%	42%	42%	15%	-11%	2%	15%	31%	81%
II. Capital									
12. How has total capital changed over the past 12 months?									
Net change	8%	45%	72%	11%	29%	-4%	6%	42%	48%
13. How will total capital change in the next 12 months?									
Net change	58%	60%	63%	-56%	-32%	-15%	-7%	13%	27%
14. How has the cost of capital changed over the past 12 months?									
Net change	-8%	29%	33%	32%	27%	60%	90%	74%	81%
15. How will the cost of capital change in the next 12 months?									
Net change	-8%	-27%	23%	56%	60%	20%	15%	4%	-7%
16. What factors will affect the change in capital over the next 12 month?									
Direct effects on capital (profit/loss)	64%	71%	73%	-77%	-51%	14%	7%	14%	33%
Regulatory requirements	-44%	-53%	-32%	-31%	4%	-17%	-25%	-35%	-15%
Factors affecting capital demand from banks									
Changes in economic outlook	-14%	-10%	-1%	-70%	-80%	-49%	-22%	-26%	-11%
Strategic decisions to change risk appetite	6%	10%	10%	-18%	-13%	-10%	-3%	-2%	-9%
Changes in asset size (growth plans)	29%	19%	38%	7%	-25%	-29%	-26%	-22%	-5%
Factors affecting capital supply from investors									
Need / desire of shareholders to change the amount of capital	12%	9%	7%	5%	11%	13%	16%	3%	4%

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 report compiles aggregate assessments and expectations of respondents regarding the volumes, costs, and maturities of various types of bank liabilities and capital, as well as the drivers of these indicators.

The report covers assessments of bank funding conditions in Q2 and expectations for Q3 2023. 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 13 June through 7 July 2023 among bank managers in charge of liabilities management. The answers were provided by 26 financial institutions that jointly hold 96% of the banking system's total assets. The survey's results reflect the views of respondents and are not to be interpreted as assessments or forecasts made by the NBU.

A bank funding survey with the banks' expectations for Q4 will be published in October 2023.