National Bank of Ukraine

Bank Funding Survey

Q4 2023

The uptrend in the volume of bank funding continues, the Q3 2023 survey showed. Unlike in previous periods, however, retail liabilities grew more than corporate ones, and wholesale funding stopped shrinking. In general, the cost of funding edged lower due to corporate borrowing and wholesale funding. But retail deposits got more expensive. In Q4 2023, the financial institutions expect an increase in the volume of funding and a decrease in its cost. The overall maturity of deposits did not change and is expected to slightly increase in the next 12 months. The share of FX liabilities declined for two straight quarters. Capital has increased in almost all banks over the past 12 months. Respondents predict it will increase going forward. The cost of capital continued to rise, but respondents no longer expect it to change in the next 12 months.

Liabilities

In Q3, the banks' liabilities generally increased in volume. Most financial institutions reported an increase in retail deposits. Growth in funding from corporates was reported by 59% of respondents, down from 95% in Q2. Wholesale funding, which includes issuing bonds and taking out loans from international financial institutions (IFIs) or parent banks and long-term refinancing loans, was unchanged for the first time after months of decreases since the onset of the full-scale war.

As with the quarter before, the banks believe that the growth in client 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 and by the financial institutions' plans to change the composition of funding. Regulatory requirements had no effect on corporate deposits, unlike in previous periods.

In Q4, the banks expect that the uptrend in the volume of liabilities will continue. However, the share of respondents planning to raise corporate deposits shrank relative to a quarter ago. The volume of wholesale funding will not change.

In Q3, 43% of the banks planned to attract wholesale funding in the future (up from just 14% the quarter before). This is one of the highest percentages since the survey began in 2021. More than a quarter of the financial institutions plan to attract wholesale funds in Q4 already. The banks are expecting to channel funds into reconstruction projects, in particular from the EU and IFIs. Respondents plan to raise wholesale funds due to non-cost factors and intend to match the maturities of assets and liabilities. In addition, for the first time since the full-scale invasion broke out, the banks said the cost of wholesale borrowing was attractive enough to stimulate demand.

The average cost of funding declined slightly in Q3 for the first time since mid-2021, the banks estimate. In particular, the cost of corporate deposits and wholesale borrowing was down somewhat, respondents said. However, two-thirds of the financial institutions continued to note an increase in retail deposit rates.

In October–December, most banks expect a decrease in the rates on all deposits. Some 87% of respondents anticipate a decline in corporate deposit rates, and 54%, in retail deposit rates. The cost of wholesale funding will remain unchanged.

The share of FX funding has been shrinking for two straight quarters, according to the banks. Almost half of respondents have the same expectations for Q4.

In Q3, the maturity of funding did not change. The banks anticipate it will grow in the next 12 months.

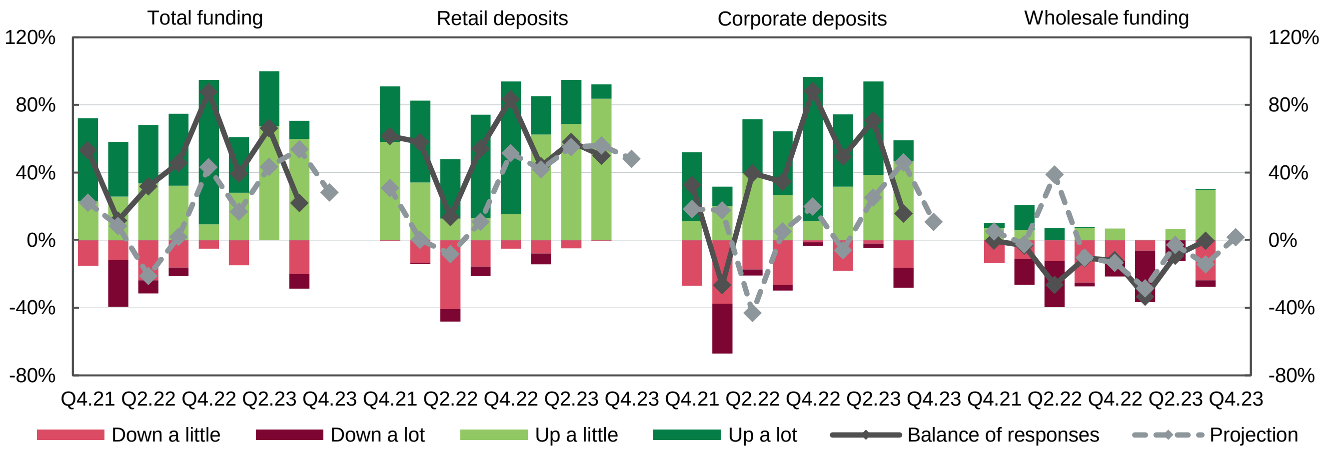
Capital

In the latest survey, almost all respondents highlighted the growth in their total capital over the past 12 months. In the next 12 months, three in four banks expect an increase in capital. This trend has persisted since early 2023 in contrast to extremely negative assessments in 2022.

For the fifth straight time, respondents cited profitability as the key factor that will drive an increase in capital in the coming 12 months. Since the start of the year, the vast majority of financial institutions have reported no shareholder plans to increase capital in the next 12 months. A reduction in capital is possible if regulatory requirements change or if the banks decide to revise their risk appetite, some respondents said.

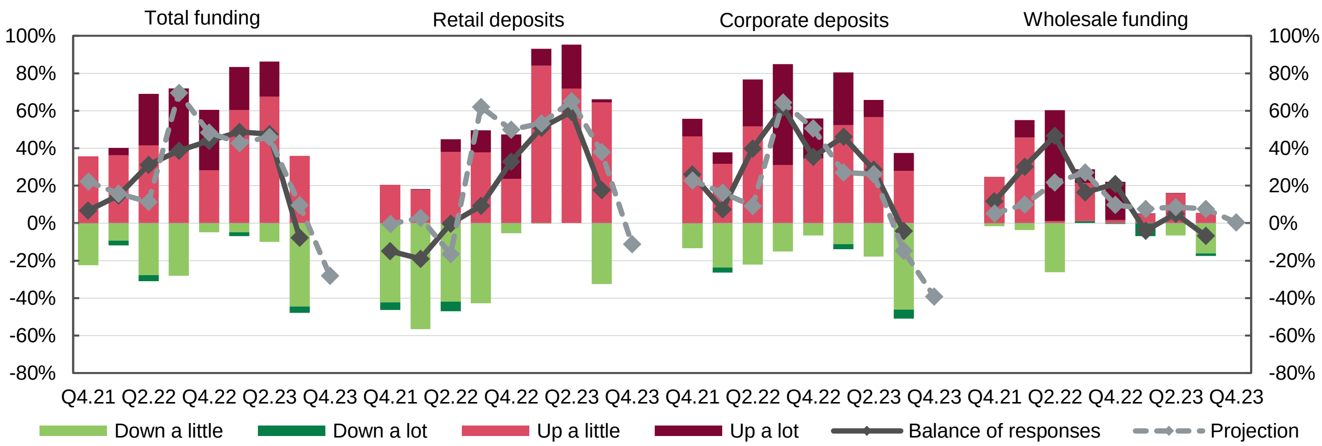
The cost of capital has risen over the past 12 months, almost three-quarters of respondents said. Going forward, however, the banks anticipate no change in the cost of capital.

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*)**

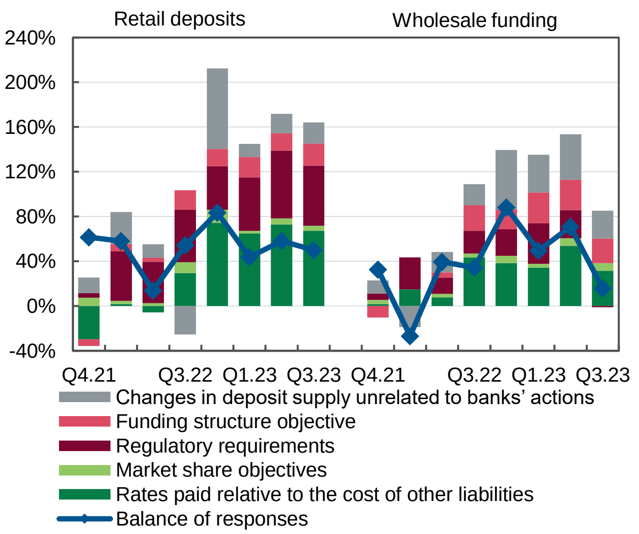
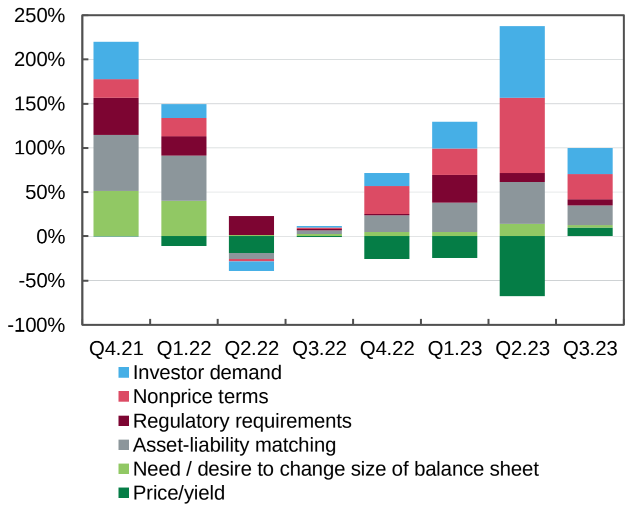


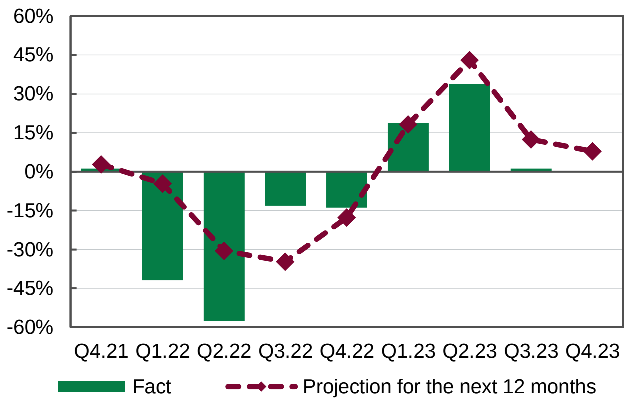
Figure 4. **Impact of factors on changes in the volume of future wholesale funding (balance of responses*)**



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

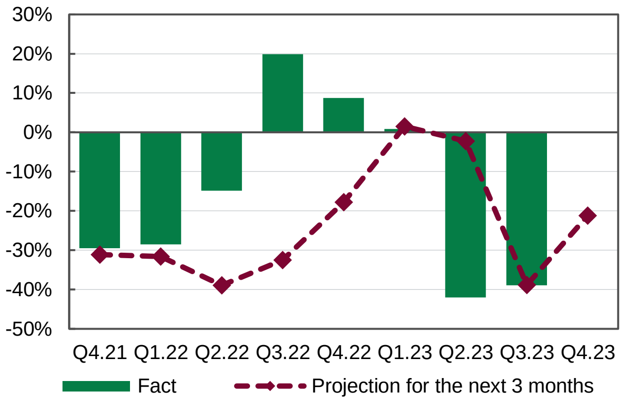
The line in the diagram is the balance of responses about the amount of funds raised. The bars denote the effects of factors on the change in the indicator (the total value of the indicator may not always equal the sum of the contributions of individual factors).

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



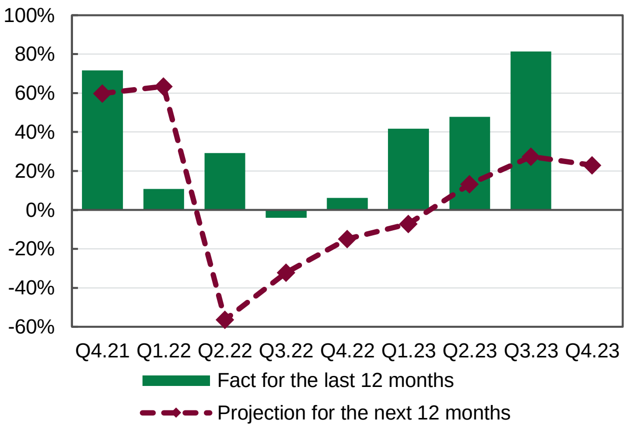
* A positive balance of responses indicates an increase in maturity of funding.

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



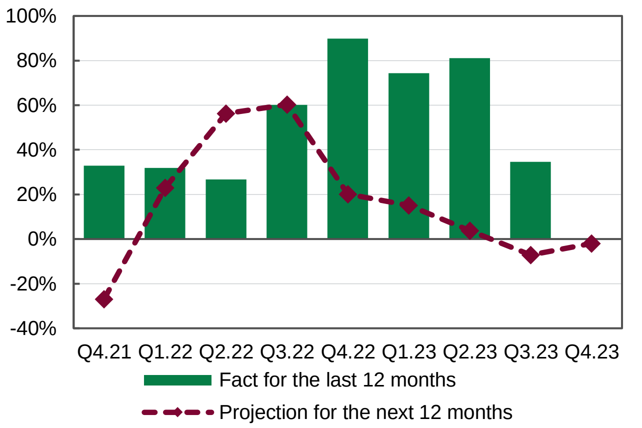
* A positive balance of responses indicates an increase in the share of FX funding.

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



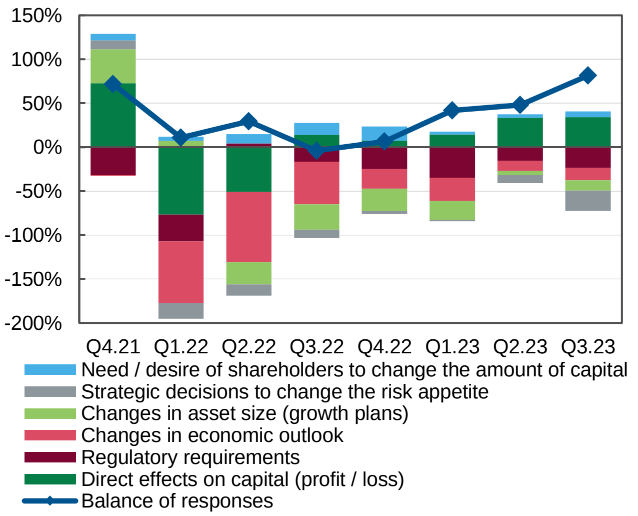
* A positive balance of responses indicates an increase in total capital.

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	Q3
1	2	3	4	5	6	7	8	9	10	11
I. Liabilities										
1. How did funding change during the quarter that ended?										
Net change	28%	0%	53%	12%	32%	46%	88%	39%	66%	22%
Retail deposits	47%	-8%	62%	58%	14%	54%	84%	44%	58%	50%
Corporate deposits	24%	14%	33%	-27%	40%	34%	88%	50%	71%	16%
Wholesale funding	-2%	13%	0%	-3%	-26%	-11%	-12%	-33%	-9%	0%
2. How will funding change in the next quarter?										
Net change	24%	22%	8%	-21%	2%	43%	17%	43%	54%	28%
Retail deposits	24%	31%	0%	-8%	11%	51%	42%	55%	56%	48%
Corporate deposits	2%	18%	18%	-43%	5%	20%	-6%	25%	46%	11%
Wholesale funding	1%	5%	-2%	39%	-10%	-13%	-28%	-3%	-14%	2%
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%	-8%
Retail deposits	-35%	-23%	-15%	-19%	0%	9%	33%	51%	59%	18%
Corporate deposits	-16%	18%	26%	7%	40%	62%	35%	46%	29%	-4%
Wholesale funding	14%	12%	12%	30%	47%	16%	21%	-4%	5%	-7%
4. How will the cost of funding change in the next quarter?										
Net change	-7%	22%	16%	11%	70%	48%	43%	46%	10%	-28%
Retail deposits	-20%	-1%	3%	-17%	62%	50%	53%	65%	38%	-11%
Corporate deposits	-1%	23%	16%	9%	64%	51%	27%	26%	-15%	-39%
Wholesale funding	11%	5%	10%	22%	27%	10%	8%	9%	8%	0%
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%	67%
Market share objectives	19%	8%	7%	3%	3%	10%	12%	2%	5%	5%
Regulatory requirements	2%	0%	4%	44%	37%	47%	39%	48%	61%	54%
Funding structure objective	29%	9%	-6%	7%	4%	18%	16%	18%	15%	20%
Depositors' supply factors										
Changing supply of deposits, unrelated to bank action	22%	-5%	14%	29%	12%	-25%	72%	12%	17%	19%
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%	32%

1	2	3	4	5	6	7	8	9	10	11
Market share objectives	13%	8%	4%	0%	3%	4%	7%	3%	7%	7%
Regulatory requirements	7%	0%	6%	29%	15%	20%	24%	36%	25%	-1%
Funding structure objective	11%	-5%	-10%	0%	5%	23%	17%	27%	27%	22%
Depositors' supply factors										
Changing supply of deposits, unrelated to bank action	26%	17%	12%	-19%	18%	19%	53%	34%	40%	25%
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%	-39%
8. How will the share of FX funding change in the next quarter?										
Net change	-38%	-31%	-32%	-39%	-33%	-18%	2%	-2%	-39%	-21%
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%	1%
10. How will the maturity of funding change over the next 12 months?										
Net change	-10%	3%	-5%	-31%	-35%	-18%	18%	43%	12%	8%
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%	2%
Asset-liability matching	64%	50%	63%	51%	-7%	4%	19%	34%	47%	22%
Price/yield	17%	35%	0%	-11%	-19%	-1%	-26%	-25%	-68%	10%
Nonprice terms	24%	19%	21%	21%	-3%	2%	31%	30%	85%	28%
Regulatory requirements	28%	44%	42%	22%	22%	2%	2%	31%	10%	7%
Depositors' supply factors										
Investor demand	23%	42%	42%	15%	-11%	2%	15%	31%	81%	30%
II. Capital										
12. How has total capital changed over the past 12 months?										
Net change	8%	45%	72%	11%	29%	-4%	6%	42%	48%	81%
13. How will total capital change in the next 12 months?										
Net change	58%	60%	63%	-56%	-32%	-15%	-7%	13%	27%	23%
14. How has the cost of capital changed over the past 12 months?										
Net change	-8%	29%	33%	32%	27%	60%	90%	74%	81%	35%
15. How will the cost of capital change in the next 12 months?										
Net change	-8%	-27%	23%	56%	60%	20%	15%	4%	-7%	-2%
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%	34%
Regulatory requirements	-44%	-53%	-32%	-31%	4%	-17%	-25%	-35%	-15%	-23%
Factors affecting capital demand from banks										
Changes in economic outlook	-14%	-10%	-1%	-70%	-80%	-49%	-22%	-26%	-11%	-14%
Strategic decisions to change risk appetite	6%	10%	10%	-18%	-13%	-10%	-3%	-2%	-9%	-23%
Changes in asset size (growth plans)	29%	19%	38%	7%	-25%	-29%	-26%	-22%	-5%	-12%
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%	7%

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 Q3 and expectations for Q4 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 15 September through 6 October 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 Q1 2024 will be published in January 2024.