National Bank of Ukraine

Bank Funding Survey

Q3 2024

The survey of banks in Q2 2024 showed an increase in volumes and a decrease in the cost of liabilities. Deposits from all clients – households and businesses alike – rose in volume, as did wholesale funding. The share of banks that reported a drop in the cost of borrowing hit a record high. Both retail and corporate deposits grew cheaper, the respondents said. The cost of wholesale funding declined for the first time in the last three quarters. In July–September, the financial institutions expect a further decrease in the cost of funding from clients. The volume of funding will rise. The overall maturity of deposits declined slowly in a downtrend that will continue into the next 12 months, the respondents said. The share of FX liabilities edged lower, and the banks expect it will also shrink in Q3. The capital of most banks has risen over the past 12 months, with 90% of respondents expecting it to grow going forward. The cost of capital decreased for three quarters running and will continue to decline, the banks estimate.

Liabilities

In Q2, the respondents noted a significant rise in the banks' liabilities as a whole. Most financial institutions reported an increase in both retail and corporate deposits. Wholesale funding – bonds, loans from international financial institutions (IFIs) or parent banks, long-term refinancing, etc. – has been on the rise for three straight quarters, primarily at some large banks.

Corporate deposits went up thanks to supply from clients themselves. Regulatory requirements and the financial institutions' plans to change the funding structure had a much smaller impact on the growth in these deposits, the respondents said. The banks attributed the rise in retail deposits to changes in regulatory requirements. But the cost did not facilitate raising client deposits.

In Q3, the financial institutions expect an overall increase in the volume of liabilities. The respondents project that both retail and corporate deposits will increase, and that the volume of wholesale funding will edge lower.

In Q2, 40% of the banks expected to raise wholesale funding in the next 12 months. Certain large financial institutions were hoping to receive wholesale funding in Q3 already. The banks expected the EU and IFIs, among others, to provide funds for reconstruction projects. The respondents planned to attract wholesale deposits to match the maturities of assets and liabilities. Investor appetite and non-price factors also shaped how the banks drew in wholesale funding. Its high cost continued to restrain the banks' demand.

Overall, the average cost of funding decreased for the fourth quarter in a row. The shares of the respondents that reported a decrease in the cost of corporate and retail deposits were the largest since the survey's launch in Q2 2021. The cost of wholesale funding also went slightly down for the first time in the past three quarters.

In Q3, almost all of the banks expect a further decline in rates on deposits from both households and corporations. The cost of wholesale funding will also decrease.

The banks estimate that the share of FX funding shrank in April–June. A significant proportion of the respondents have similar expectations for Q3.

For three straight quarters, the maturity of funding shortened somewhat, although fewer financial institutions reported this in Q2 than a quarter ago. This downtrend will continue into the next 12 months, the banks estimate.

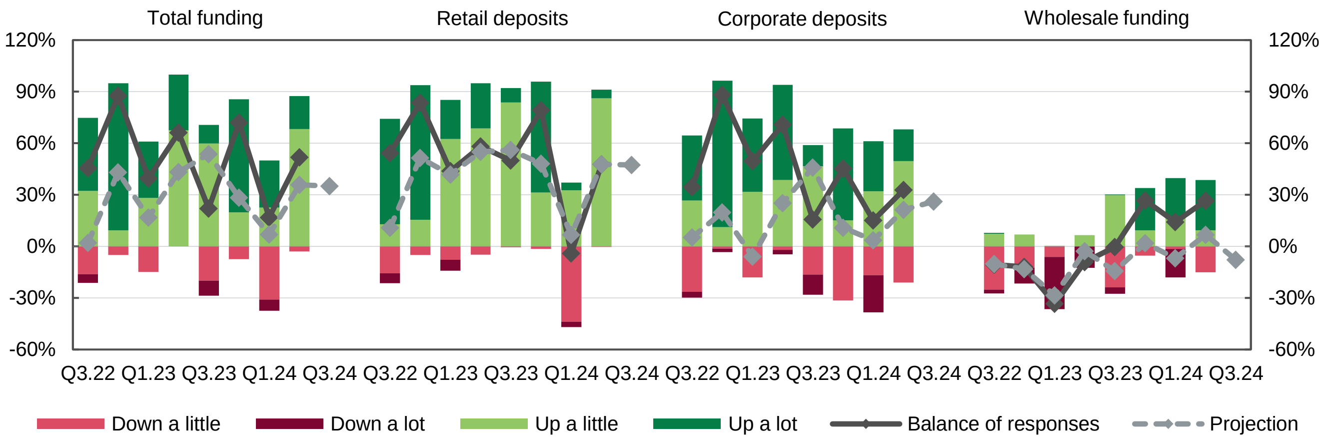
Capital

In Q2, about 90% of the respondents said their total capital had risen over the past 12 months. Three quarters of the banks anticipate this uptrend will persist in the next 12 months.

Since Q3 2022, the respondents have cited profitability as the key driver of capital growth in the near term. A reduction in capital is possible if regulatory requirements change, macroeconomic forecasts worsen, or the banks decide to revise their risk appetite, some of the banks said. In Q2, only one in ten financial institutions mentioned shareholder plans to build up capital in the next 12 months.

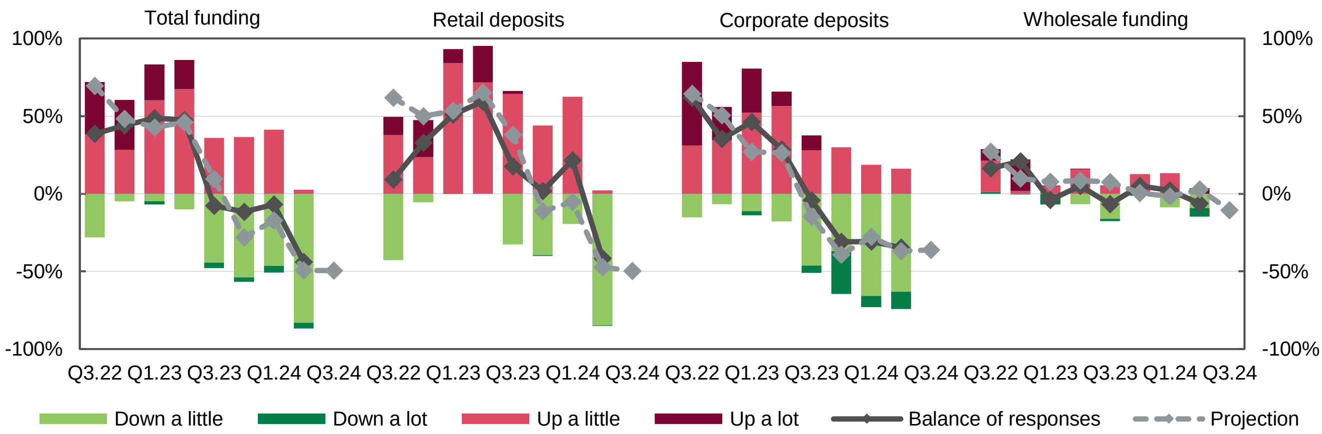
For the third quarter in a row, the respondents pointed to a decline in the cost of capital over the past 12 months. The banks also expect the cost of capital will decline going forward.

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*)**

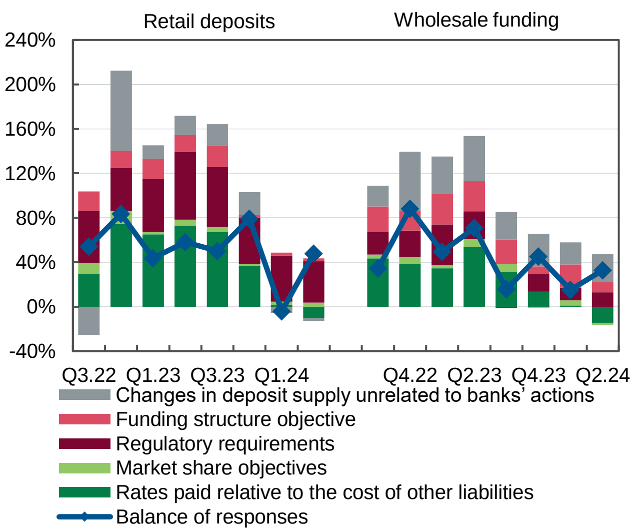
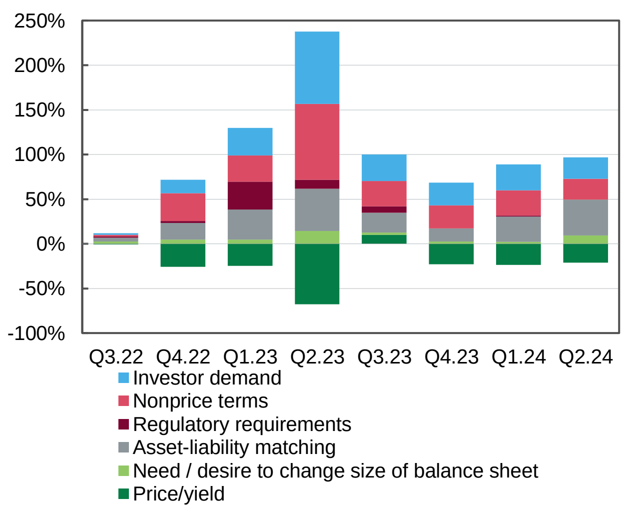


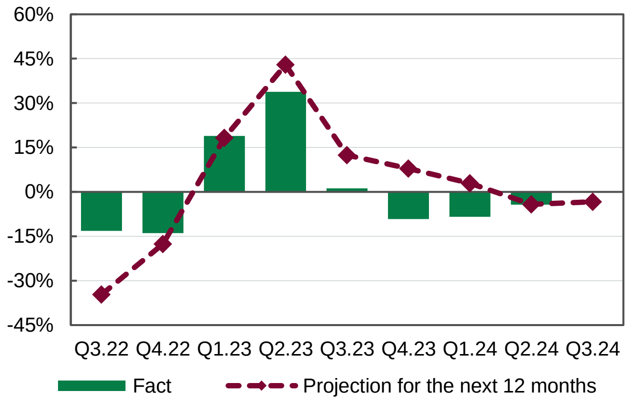
Figure 4. **Impact of factors on changes in the volume of future wholesale funding (balance of responses*)**



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

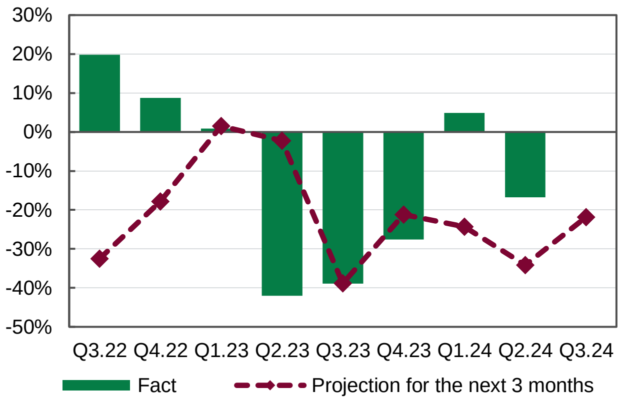
The line in the diagram is the balance of responses about the amount of funds raised. The bars denote the effects of factors on the change in the indicator (the total value of the indicator may not always equal the sum of the contributions of individual factors).

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



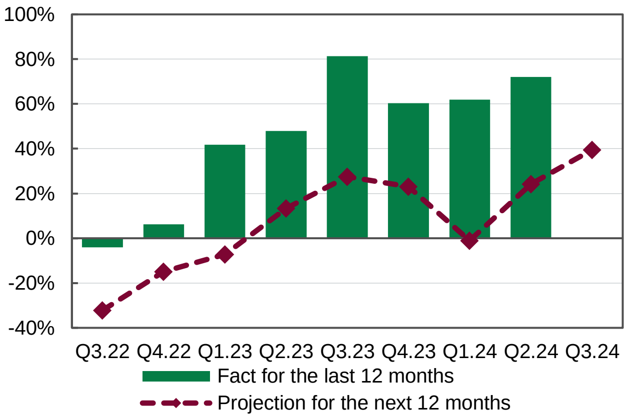
* A positive balance of responses indicates an increase in maturity of funding.

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



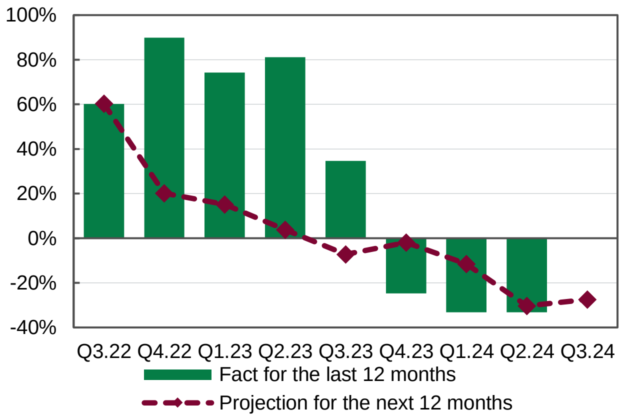
* A positive balance of responses indicates an increase in the share of FX funding.

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



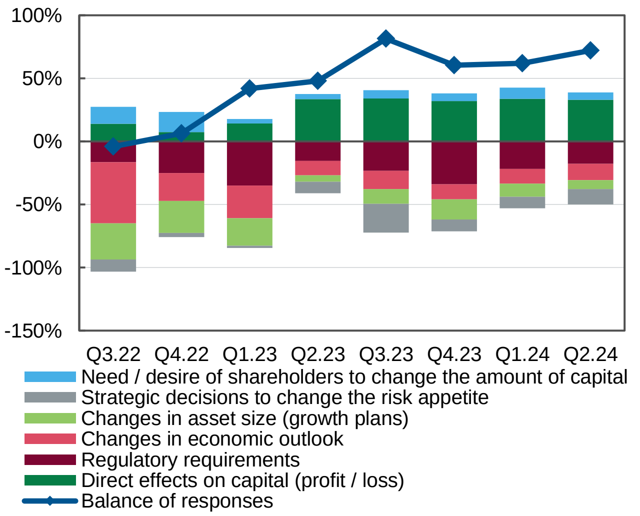
* A positive balance of responses indicates an increase in total capital.

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				2024	
	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2
1	2	3	4	5	6	7	8	9	10	11	12	13
I. Liabilities												
1. How did funding change during the quarter that ended?												
Net change	0%	53%	12%	32%	46%	88%	39%	66%	22%	72%	17%	52%
Retail deposits	-8%	62%	58%	14%	54%	84%	44%	58%	50%	79%	-4%	48%
Corporate deposits	14%	33%	-27%	40%	34%	88%	50%	71%	16%	45%	15%	33%
Wholesale funding	13%	0%	-3%	-26%	-11%	-12%	-33%	-9%	0%	27%	14%	27%
2. How will funding change in the next quarter?												
Net change	22%	8%	-21%	2%	43%	17%	43%	54%	28%	7%	36%	35%
Retail deposits	31%	0%	-8%	11%	51%	42%	55%	56%	48%	7%	48%	47%
Corporate deposits	18%	18%	-43%	5%	20%	-6%	25%	46%	11%	4%	21%	26%
Wholesale funding	5%	-2%	39%	-10%	-13%	-28%	-3%	-14%	2%	-7%	7%	-8%
3. How did the average cost of funding change over the quarter that has just ended?												
Net change	1%	7%	15%	31%	39%	44%	49%	48%	-8%	-12%	-7%	-44%
Retail deposits	-23%	-15%	-19%	0%	9%	33%	51%	59%	18%	2%	21%	-42%
Corporate deposits	18%	26%	7%	40%	62%	35%	46%	29%	-4%	-31%	-31%	-35%
Wholesale funding	12%	12%	30%	47%	16%	21%	-4%	5%	-7%	5%	2%	-6%
4. How will the cost of funding change in the next quarter?												
Net change	22%	16%	11%	70%	48%	43%	46%	10%	-28%	-17%	-49%	-49%
Retail deposits	-1%	3%	-17%	62%	50%	53%	65%	38%	-11%	-5%	-47%	-50%
Corporate deposits	23%	16%	9%	64%	51%	27%	26%	-15%	-39%	-28%	-37%	-36%
Wholesale funding	5%	10%	22%	27%	10%	8%	9%	8%	0%	-2%	3%	-11%
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	-17%	-30%	2%	-6%	29%	74%	65%	73%	67%	37%	1%	-10%
Market share objectives	8%	7%	3%	3%	10%	12%	2%	5%	5%	2%	3%	4%
Regulatory requirements	0%	4%	44%	37%	47%	39%	48%	61%	54%	41%	41%	37%
Funding structure objective	9%	-6%	7%	4%	18%	16%	18%	15%	20%	3%	3%	3%
Depositors' supply factors												
Changing supply of deposits, unrelated to bank action	-5%	14%	29%	12%	-25%	72%	12%	17%	19%	21%	-5%	-3%

1	2	3	4	5	6	7	8	9	10	11	12	13
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	18%	2%	15%	8%	43%	38%	34%	54%	32%	13%	1%	-14%
Market share objectives	8%	4%	0%	3%	4%	7%	3%	7%	7%	-1%	4%	-2%
Regulatory requirements	0%	6%	29%	15%	20%	24%	36%	25%	-1%	16%	12%	13%
Funding structure objective	-5%	-10%	0%	5%	23%	17%	27%	27%	22%	7%	21%	9%
Depositors' supply factors												
Changing supply of deposits, unrelated to bank action	17%	12%	-19%	18%	19%	53%	34%	40%	25%	30%	20%	25%
7. How has the share of FX funding changed in the quarter that has just ended?												
Net change	-10%	-29%	-29%	-15%	20%	9%	1%	-42%	-39%	-28%	5%	-17%
8. How will the share of FX funding change in the next quarter?												
Net change	-31%	-32%	-39%	-33%	-18%	2%	-2%	-39%	-21%	-24%	-34%	-22%
9. How did the maturity of the funds raised in the quarter that has just ended change from the previous quarter?												
Net change	-11%	1%	-42%	-58%	-13%	-14%	19%	34%	1%	-9%	-8%	-4%
10. How will the maturity of funding change over the next 12 months?												
Net change	3%	-5%	-31%	-35%	-18%	18%	43%	12%	8%	3%	-4%	-3%
11. What factors have influenced plans to raise wholesale funding going forward?												
Banks' demand factors												
Need / desire to change size of balance sheet	49%	51%	40%	1%	3%	5%	5%	14%	2%	3%	2%	9%
Asset-liability matching	50%	63%	51%	-7%	4%	19%	34%	47%	22%	15%	28%	40%
Price/yield	35%	0%	-11%	-19%	-1%	-26%	-25%	-68%	10%	-23%	-24%	-21%
Nonprice terms	19%	21%	21%	-3%	2%	31%	30%	85%	28%	26%	28%	23%
Regulatory requirements	44%	42%	22%	22%	2%	2%	31%	10%	7%	0%	1%	0%
Depositors' supply factors												
Investor demand	42%	42%	15%	-11%	2%	15%	31%	81%	30%	25%	29%	24%
II. Capital												
12. How has total capital changed over the past 12 months?												
Net change	45%	72%	11%	29%	-4%	6%	42%	48%	81%	60%	62%	72%
13. How will total capital change in the next 12 months?												
Net change	60%	63%	-56%	-32%	-15%	-7%	13%	27%	23%	-1%	24%	39%
14. How has the cost of capital changed over the past 12 months?												
Net change	29%	33%	32%	27%	60%	90%	74%	81%	35%	-25%	-33%	-33%
15. How will the cost of capital change in the next 12 months?												
Net change	-27%	23%	56%	60%	20%	15%	4%	-7%	-2%	-12%	-30%	-27%
16. What factors will affect the change in capital over the next 12 month?												
Direct effects on capital (profit/loss)	71%	73%	-77%	-51%	14%	7%	14%	33%	34%	32%	34%	33%
Regulatory requirements	-53%	-32%	-31%	4%	-17%	-25%	-35%	-15%	-23%	-34%	-22%	-18%
Factors affecting capital demand from banks												
Changes in economic outlook	-10%	-1%	-70%	-80%	-49%	-22%	-26%	-11%	-14%	-12%	-12%	-13%
Strategic decisions to change risk appetite	10%	10%	-18%	-13%	-10%	-3%	-2%	-9%	-23%	-9%	-9%	-12%
Changes in asset size (growth plans)	19%	38%	7%	-25%	-29%	-26%	-22%	-5%	-12%	-16%	-10%	-7%
Factors affecting capital supply from investors												
Need / desire of shareholders to change the amount of capital	9%	7%	5%	11%	13%	16%	3%	4%	7%	6%	9%	6%

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 2024 and expectations for Q3 2024. The survey contains generalized estimates of changes in the banks' capital ratios over the past 12 months, and expectations for the next 12 months (Q3 2024–Q2 2025). The survey was carried out from 17 June through 8 July 2024 among bank liability managers. 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 2024 will be published in October 2024.