National Bank of Ukraine

Bank Funding Survey

Q1 2024

The Q4 2023 survey of banks has once again shown an upward trend in client deposits. As in the previous quarter, funding from households grew more than funding from businesses. At the end of the year, wholesale funding also increased. For two quarters in a row, the banks have reported a decline in the cost of liabilities, mainly due to lower interest rates on corporate deposits. Q4 saw no significant change in the cost of household deposits and wholesale funding. In the first three months of 2024, financial institutions expect the cost of borrowing from both businesses and households to decline, while funding volumes will remain practically unchanged. Although the overall maturity of deposits decreased slightly, it is not expected to change in 2024. The share of FX liabilities dropped, and this downward trend will continue into the first three months of 2024. The capital of most banks has risen over the past 12 months, but respondents do not expect it to increase in future. For the first time since the start of 2021, the cost of capital has declined, and the banks expect this trend to continue.

Liabilities

The banks said that, on the whole, liabilities increased in Q4. Most financial institutions recorded an increase in both retail and corporate deposits. The funding from households increased more noticeably, with the balance of responses reaching 79%. Wholesale funding, which includes issuing bonds and taking out loans from international financial institutions (IFIs) or parent banks and long-term refinancing loans, grew for the first time since the middle of 2021, according to some large banks.

The banks believed that the growth in retail deposits was propelled by changes in regulatory requirements. Meanwhile, the growth in corporate deposits was fueled by clients' deposit supply. The impact of interest rates, which in 2023 was a key driver of client deposit growth, has significantly decreased.

Each quarter last year, the banks said they expected still lower funding growth rates. In Q1 2024, most of the banks said they expected no changes in client deposits.

In Q4, 36% of the banks said they expected to raise wholesale funding in the future (43% in Q3). Some large financial institutions hope to raise wholesale funding in Q1. As in the previous quarter, the banks expect to receive funds for recovery projects, in particular from the EU and IFIs. Respondents plan to raise wholesale funds due to non-price factors and their intentions to match the maturities of assets and liabilities. One in four banks once again said that high cost on wholesale funding was restraining demand for it.

Overall, the average cost of funding has been declining for two quarters in a row, according to the banks. Almost two-thirds of respondents reported a drop in interest rates on corporate deposits. At the same time, interest rates on retail deposits and wholesale funds did not change significantly over the quarter.

In January–March, most banks expect a decline in interest rates on all deposits. Some 69% of respondents anticipate a decline in corporate deposit rates, and 50% in retail deposit rates. At the same time, the banks say that the cost of wholesale funding will not change.

The share of FX funding decreased throughout 2023, the banks said. More than half of the respondents have the same expectations for Q1.

In Q4, the maturity of funding slightly decreased. According to the banks, it will not change over the next 12 months.

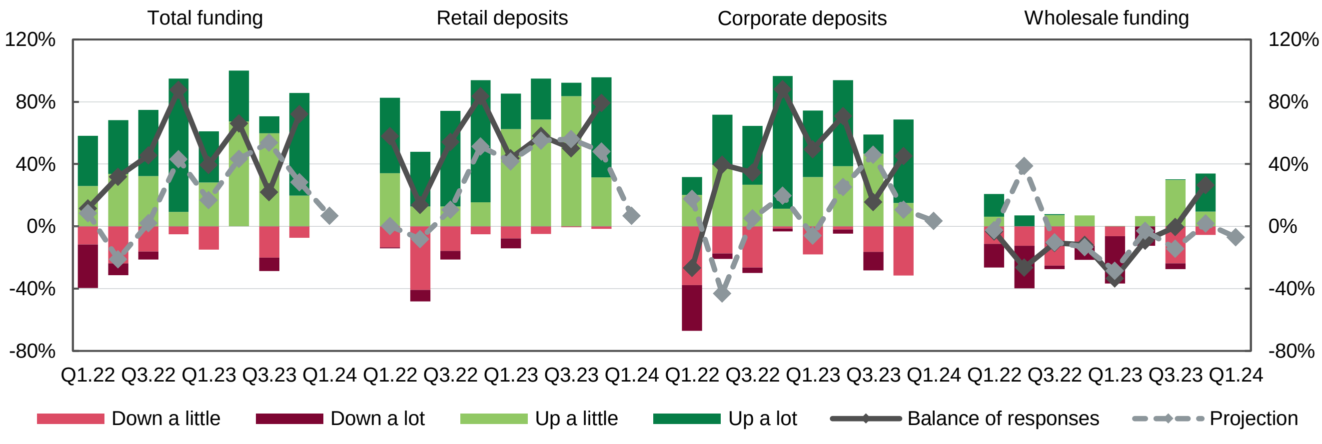
Capital

In the current survey, almost 75% of respondents said that their total capital had risen over the last 12 months. During the next 12 months, the banks do not expect any changes in their capital, which checked the trend seen in the first three quarters of 2023, when the banks' expectations for capital growth were optimistic.

Respondents once again cited profitability as the only factor that could push capital up over the next 12 months. A reduction in capital is possible if regulatory requirements change or if the banks decide to revise their assets, some banks said. As in Q1–Q3 2023, in Q4 the vast majority of financial institutions said that their shareholders did not intend to increase capital over the next 12 months.

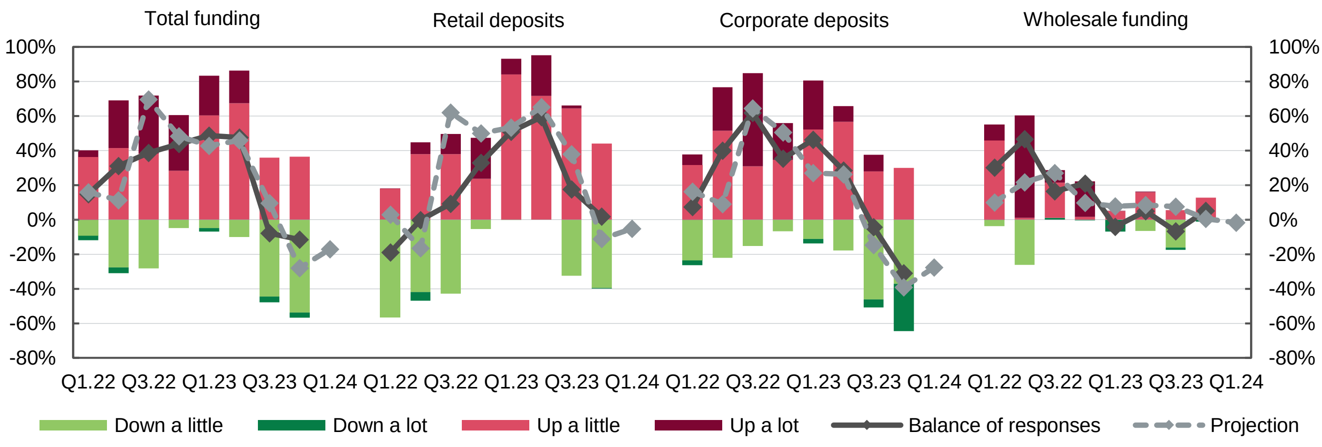
For the first time since the middle of 2021, almost half of the respondents reported a decline in the cost of capital over the past 12 months. The banks also expect that the cost of capital will decline in future.

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*)**

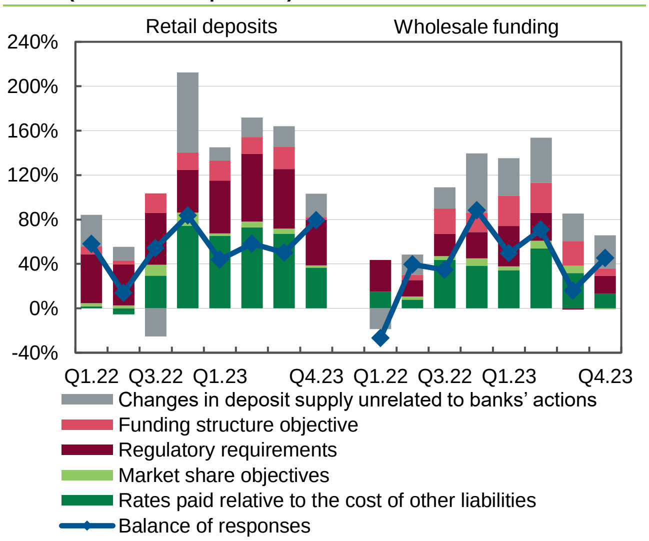
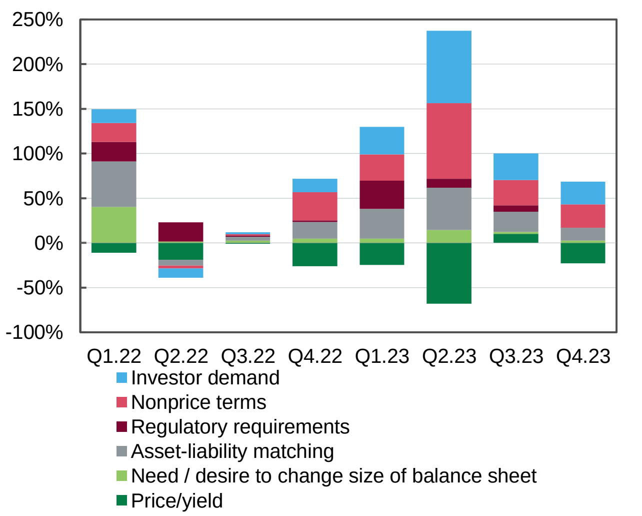


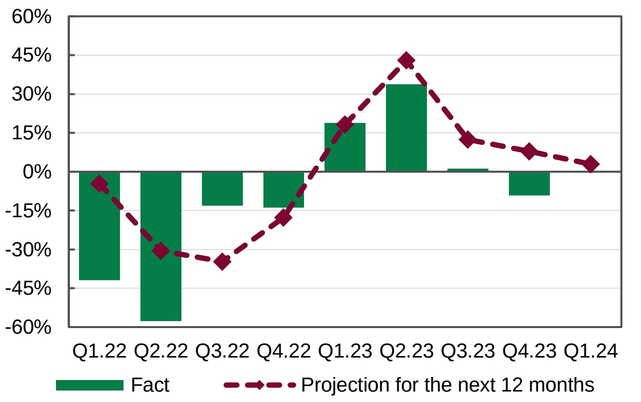
Figure 4. **Impact of factors on changes in the volume of future wholesale funding (balance of responses*)**



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

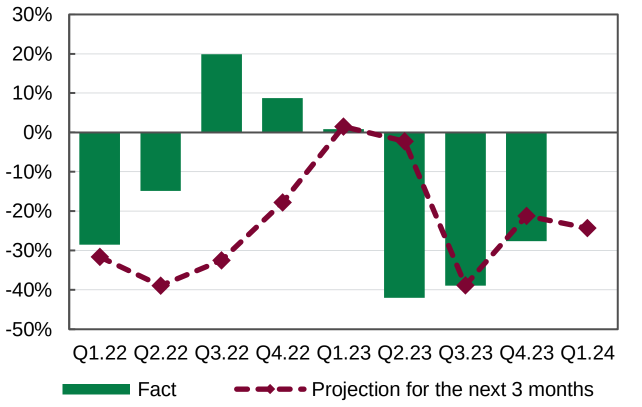
The line in the diagram is the balance of responses about the amount of funds raised. The bars denote the effects of factors on the change in the indicator (the total value of the indicator may not always equal the sum of the contributions of individual factors).

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



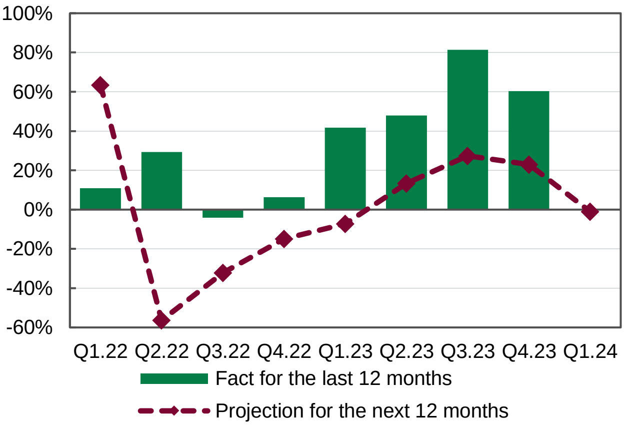
* A positive balance of responses indicates an increase in maturity of funding.

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



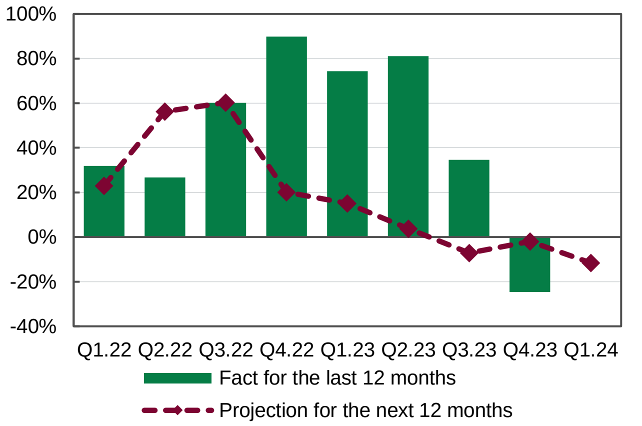
* A positive balance of responses indicates an increase in the share of FX funding.

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



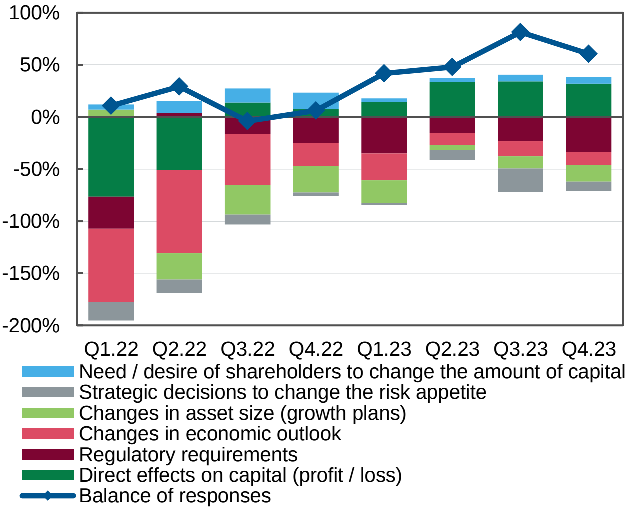
* A positive balance of responses indicates an increase in total capital.

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	Q4
1	2	3	4	5	6	7	8	9	10	11	12
I. Liabilities											
1. How did funding change during the quarter that ended?											
Net change	28%	0%	53%	12%	32%	46%	88%	39%	66%	22%	72%
Retail deposits	47%	-8%	62%	58%	14%	54%	84%	44%	58%	50%	79%
Corporate deposits	24%	14%	33%	-27%	40%	34%	88%	50%	71%	16%	45%
Wholesale funding	-2%	13%	0%	-3%	-26%	-11%	-12%	-33%	-9%	0%	27%
2. How will funding change in the next quarter?											
Net change	24%	22%	8%	-21%	2%	43%	17%	43%	54%	28%	7%
Retail deposits	24%	31%	0%	-8%	11%	51%	42%	55%	56%	48%	7%
Corporate deposits	2%	18%	18%	-43%	5%	20%	-6%	25%	46%	11%	4%
Wholesale funding	1%	5%	-2%	39%	-10%	-13%	-28%	-3%	-14%	2%	-7%
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%	-12%
Retail deposits	-35%	-23%	-15%	-19%	0%	9%	33%	51%	59%	18%	2%
Corporate deposits	-16%	18%	26%	7%	40%	62%	35%	46%	29%	-4%	-31%
Wholesale funding	14%	12%	12%	30%	47%	16%	21%	-4%	5%	-7%	5%
4. How will the cost of funding change in the next quarter?											
Net change	-7%	22%	16%	11%	70%	48%	43%	46%	10%	-28%	-17%
Retail deposits	-20%	-1%	3%	-17%	62%	50%	53%	65%	38%	-11%	-5%
Corporate deposits	-1%	23%	16%	9%	64%	51%	27%	26%	-15%	-39%	-28%
Wholesale funding	11%	5%	10%	22%	27%	10%	8%	9%	8%	0%	-2%
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%	37%
Market share objectives	19%	8%	7%	3%	3%	10%	12%	2%	5%	5%	2%
Regulatory requirements	2%	0%	4%	44%	37%	47%	39%	48%	61%	54%	41%
Funding structure objective	29%	9%	-6%	7%	4%	18%	16%	18%	15%	20%	3%
Depositors' supply factors											
Changing supply of deposits, unrelated to bank action	22%	-5%	14%	29%	12%	-25%	72%	12%	17%	19%	21%
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%	13%
Market share objectives	13%	8%	4%	0%	3%	4%	7%	3%	7%	7%	-1%

1	2	3	4	5	6	7	8	9	10	11	12
Regulatory requirements	7%	0%	6%	29%	15%	20%	24%	36%	25%	-1%	16%
Funding structure objective	11%	-5%	-10%	0%	5%	23%	17%	27%	27%	22%	7%
Depositors' supply factors											
Changing supply of deposits, unrelated to bank action	26%	17%	12%	-19%	18%	19%	53%	34%	40%	25%	30%
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%	-28%
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%	-24%
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%	-9%
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%	3%
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%	3%
Asset-liability matching	64%	50%	63%	51%	-7%	4%	19%	34%	47%	22%	15%
Price/yield	17%	35%	0%	-11%	-19%	-1%	-26%	-25%	-68%	10%	-23%
Nonprice terms	24%	19%	21%	21%	-3%	2%	31%	30%	85%	28%	26%
Regulatory requirements	28%	44%	42%	22%	22%	2%	2%	31%	10%	7%	0%
Depositors' supply factors											
Investor demand	23%	42%	42%	15%	-11%	2%	15%	31%	81%	30%	25%
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%	60%
13. How will total capital change in the next 12 months?											
Net change	58%	60%	63%	-56%	-32%	-15%	-7%	13%	27%	23%	-1%
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%	-25%
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%	-12%
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%	32%
Regulatory requirements	-44%	-53%	-32%	-31%	4%	-17%	-25%	-35%	-15%	-23%	-34%
Factors affecting capital demand from banks											
Changes in economic outlook	-14%	-10%	-1%	-70%	-80%	-49%	-22%	-26%	-11%	-14%	-12%
Strategic decisions to change risk appetite	6%	10%	10%	-18%	-13%	-10%	-3%	-2%	-9%	-23%	-9%
Changes in asset size (growth plans)	29%	19%	38%	7%	-25%	-29%	-26%	-22%	-5%	-12%	-16%
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%	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 Q4 2023 and expectations for Q1 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 (Q1–Q4 2024). The survey was carried out from 15 December 2023 through 12 January 2024 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 Q2 2024 will be published in April 2024.