



# Quarterly Bank Survey

№ 1 (2)  
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- Banks neutrally estimate the current economic situation and expect its improvement in the following half of the year.
- The increase of interest rates is not expected, except for the insignificant raise in short-term credits.
- Banks mark the improvement of their competitive position on the market of services for both private and corporate clients.
- Banks inform about the growth of demand during the last six months and make positive predictions for the future.
- Demand from private clients is lesser than demand from corporate clients, subsequent diminishing forecasted.
- Competition in the sector and unfavorable political situation are seen as most critical factors for the conduct of business in banking sector.

Mail survey of banks for monitoring of assessments and expectations of managers about changes in general business climate and performance. Response rate is 16,7%.

**In this issue: results of a survey conducted during November 30<sup>th</sup> – December 14<sup>th</sup> 2007**

**Indexes: Dec'07 to Aug'07**

**Expectations: Mar'07 to Dec'07**

**Business climate: index December 07, expectations for 6 months**

## Business climate

25% of the banks, polled within the framework of the banks quarterly questioning in December 2007, regard the current overall economic conditions in the country as good. 75% name the current economic situation satisfactory. 40% of the polled anticipate the improvement of the economic situation in the next 6 months, and 60% of the respondents think that it will still remain unchanged in the future. None of the banks sees the economic situation as bad, nor expects its worsening in the following half of the year.

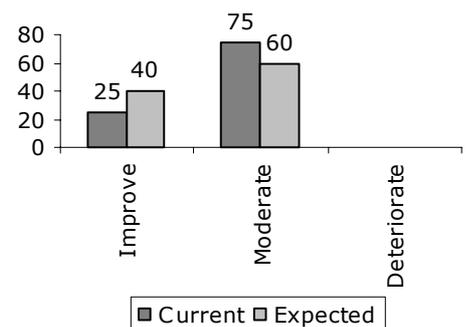
## Business situation and expectations

14,3% of the polled banks assess the current business situation as good, 85,7% judge it as satisfactory, but all 100% expect its improvement in the future. No one of the respondents considers it to be bad, nor does expect worsening.

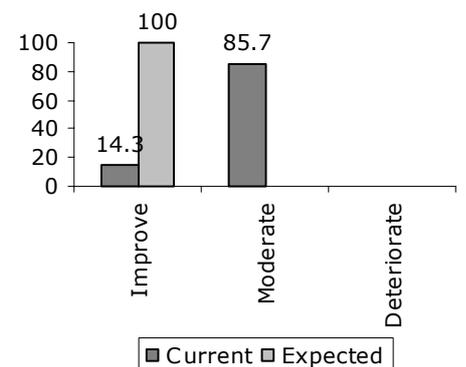
## Demand

Banks inform about growth of demand in autumn and make positive predictions for the future. 85,7% of banks state the growth of demand in autumn comparatively with summer, and 14,3% say that it did not change. Forecasts of change of demand in 3-4 month perspective are positive: 85,7% of banks expect subsequent growth of demand and 14,3% consider that it will remain without changes. Therefore, *the indexes of changes* of demand amount 0,86 both for the past and the future halves of the year. The demand growth rate of corporate clients is what banks estimate especially positively. All 100% of banks noticed its increase in autumn and hope for its further rise. The corresponding indexes of the expected changes sum up as 1. The demand from private clients is assessed less optimistically. The value of the related index is 0,86: 85,7% of the banks have informed about the growth of demand from private clients and 14,3% reported its unvarying state. But the index of expected changes of the demand from private clients fell down to 0,71.

## General economic situation and expectations



## Business situation and expectations



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**Income**

Ukrainian banks estimate net income for past half of the year positively enough. With the general index 0,86, 85,7% of respondents point out net income increase, and 14,5% observe no changes. Considering total revenue, 71,4% of banks informed about its growth, 14,3 reported decrease and for 14,3% of the polled it remained without changes. At the same time, banks unanimously forecast growth of both profit and net income in the next half of the year. With one hundred percents of answers "More" to both questions, the indexes of prognoses reached one. The increase of interest returns from bank securities was observed more frequently in the past half of the year than increase of interest returns from loans for private clients (0,86 compared to 0,57). Among these, commission income from transactions with clients demonstrated a better tendency. The corresponding *index of changes* equaled 0,86, and the index of the expected changes for nearest half of the year reaches one. *The index of commission income from banking transactions* amounts 0,71 and there is the same value for the corresponding index of expected changes in the next half of the year. Banks anticipate slowing down of growth rate of results from trade operations during the next half of the year. It can be seen due to the fact that the part of the respondents who expect growth of results from trade operations in the next half of the year (71,4%) is less than the part of those who reported the growth of results during the last six months (85,7%). At the same time, the results from trade operations are more frequently forecasted to remain without changes (28,6%), while only 14,3% of banks reported about unvarying results in the previous half of the year.

**Loans and interest rates**

Banks do not expect considerable changes in size of interest rates in the nearest time. *The indexes of the expected changes* in relation to fluctuation of interest rates of long-term credits and short-term deposits equal a zero. Both in relation to short-term deposits and in relation to short-term deposits two 14,3% shares of respondents consider that interest rates will either diminish or rise. Similarly in both categories 71,4% of banks expect no changes. *The index of the expected changes* of interest rates of short-term credits has a positive value and equals 0,14. It is caused by the fact that none of the banks expects the decline of interest rates of short-term credits, 85,7% of banks anticipate no changing, and 14,3% hope on the increase of interest rates in this category. With long-term deposits, the situation is different. The negative value of *index of the expected changes* (-0,14) is caused by the fact that 28,6% of banks expect decline of interest rates in this category, 14,3% expect an increase, and 57,1% expect no changes.

**Special question**

In the special part banks were to name factors that restrain demand on short-term and long-term credits in their opinion.

**Indexes**

	Q3'07- Q4'07 Ex post	Q1'08- Q2'08 Ex ante
<b>1. Indexes:</b>		
Present business situation	0,86	1
General economic conditions	0,75	0,6
<b>2. Performances' index:</b>		
Demand	0,86	0,86
Demand from corporate clients	1	1
Private clients sector demand	0,86	0,71
Net profit	0,86	1
Net interest income from loan for private clients	0,57	1
Net interest income from bank securities	0,86	1
Net fee and commission income from banking transactions	0,71	0,71
Net fee and commission income from transactions with clients	0,86	1
Net trading income	0,85	0,71
Gross Operating Income (GOI)	0,57	1
Personnel expenses/(GOI)	0,71	0,71
Number of employees	0,57	0,71
Loans to private clients		1
Loans to corporate clients		1
<b>3. Interest rates</b>		
Short-term loans		0,14
Long-term loans		0
Short-term deposits		0
Long-term deposits		-0,14
<b>4. Staff</b>		
Front office	0,43	
Back office	0,29	
<b>5. Competitive position</b>		
- Services for private clients	0,57	
- Services for corporate clients	0,57	



High level of interest rates (85,7%), imperfection of instruments and mechanisms of mortgage (57,14%) and surplus requirements to the cost of mortgage (42,9%) were recognized as factors that restrain demand on short-term credits. In relation to long-term credits the same factors were found suppressive: high level of interest rates (100%), imperfection of instruments and mechanisms of mortgage (71,4%) and surplus requirements to the cost of mortgage (42,9%).

### Competitive position

Banks mark the improvement of their competitive position on the market of services for both private and corporate clients. Indexes for these markets are identical – 0,57. Estimations of competitive position are also similar for both markets: 71,4% of respondents consider that competition position became better, and two further parts of 14,3% think that it became worse or remained without changes.

### Impediments to business development

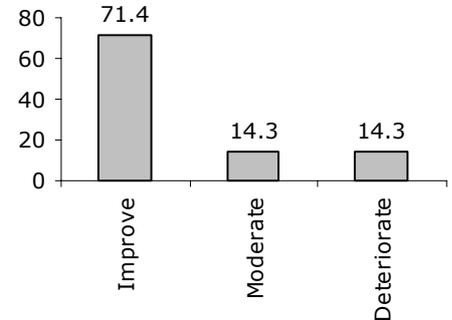
A competition in a sector was acknowledged as the most significant factor among those that limit the increase of bank operations volumes. 85,7% of respondents indicated it in their answers. Unfavorable political situation is located on the second place with 57,1% of answers. Other factors follow it by the decreasing level of importance: unfavorable regulatory climate and shortage of skilled employees (42,9% both). 28,6% of respondents chose the variant "Other" and the same amount noted no obstacles. None of the banks reported such retentive factors as low demand or tax pressure.

### Methodology of research

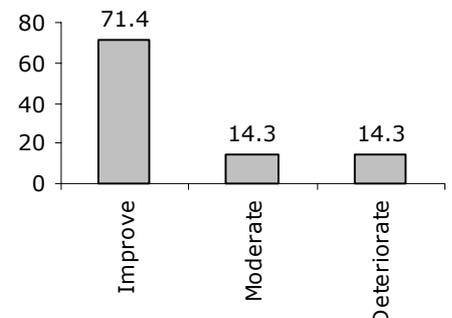
The survey was conducted on the base of the standard questionnaire, which contains questions concerning overall economic conditions in the country, business situation in the bank, impediments to business activity, expectations about interest rates for loans and deposits. Total universe of banks contains 156 entities, which are constantly present on a market.

All the indexes are calculated by the unified methodology. We count answers as +1 when a bank answers that an indicator increased, 0 - if it did not change and -1 - if decreased. For example, if out of 100 respondents 20 noted the growth of profits, 50 respondents reported their reduction, and 30 marked that situation had remained without changes, the proper value of index will be -0.30. The positive (negative) value of index means that a part of banks whose' profits have grown is more than (less than) a part of those, whose' profits have reduced. Every index bigger than +0.09 or smaller than -0.09 is statistically significant and differs from a zero with 5% probability of error. For details please contact Oksana Kuziakiv ([Kuziakiv@ier.kiev.ua](mailto:Kuziakiv@ier.kiev.ua))

### Competitive position in corporate sector



### Competitive position in private sector



### Impediments to business development

