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Iryna Storonyanska¹, Aleksandra Nowakowska², Liliya Benovska¹, Andriy Dub¹

*¹State Institution “Institute of Regional Research named after M. I. Dolishniy
of National Academy of Sciences of Ukraine”*

²University of Lodz

¹Ukraine

²Poland

IMBALANCES AND RISKS OF THE REGIONAL DEVELOPMENT OF UKRAINE’S ECONOMY UNDER CONDITIONS OF INSTABILITY

Purpose. *The research aims to detect main trends of regional development of Ukraine’s economy, and substantiate imbalances and risks, which must be taken into account in the formation of a new model of regional development of Ukraine and improving financial-economic resilience under conditions of modern turbulence.*

Methodology / approach. *The general theoretical scientific methods, fundamental principles of regional economy, which are highlighted in the works of both Ukrainian and foreign scientists on spatial development. The following research methods were used to perform to fulfill the tasks: abstract-logical, comparative and correlation analysis, graphic visualization, statistical.*

Results. *The research puts forward a range of hypotheses: the regions with higher economic activity concentration develop faster; the regions oriented on technology-intensive economic activity types and with high innovation activity level have higher chances for economic growth; economic growth can result in growing interregional inequalities and imbalances in a long run; economically powerful regions are more resilient to financial and economic crises. Their verification shows that the economic development of Ukrainian regions is determined by factors other than initial economic capacity. Ukrainian regions are hardly developing according to the recognized global development principles. Their economic success is ensured by orientation on the agricultural output (usually low-margin) rather than technology-intensive economic activities and dynamic innovative activity. Interregional comparisons of business environment condition and economic growth of Ukrainian regions prove that the regions-leaders by economic growth paces are characterized by the relatively higher quality of entrepreneurial climate. Moreover, recently, they have been improving their positions in regional doing business rankings. Meanwhile, the largest group of Ukrainian regions, which still have positive rates of economic development, is the outsider in terms of both the business climate quality and loss of ranking positions. The most difficult situation with entrepreneurship environment is in Zaporizhzhia, Poltava, and Kherson oblasts. Therefore, the regions that used to be oriented on large enterprises of the industrial sector have not managed to reorient themselves on the support of entrepreneurship and stimulation of entrepreneurial activity. However, a positive sign is a significant improvement of Zaporizhzhia and Dnipropetrovsk oblasts positions in the rankings.*

Originality / scientific novelty. *Based on the studying of regional development trends under crisis conditions of financial-economic turbulence, the research outlines current risks of regional economic growth, including the risk of further loss of economic capacity of Ukraine and its regions to achieve resilient growth, the risk of delayed effect of economic growth slowdown in a short-term period, the risk of growing economic development imbalances of Ukrainian regions.*

Practical value / implications. *The value of the study lies in the use of identified trends and risks in building a new methodology of state regional policy and updating tools to stimulate*

economic development of Ukraine, which will increase the stability of the economy under conditions of financial and economic turbulence.

Key words: *regional development, economic growth, risks, trends, new regional development model.*

Introduction and review of literature. Until recently, the existing model of regional development in Ukraine, formed under conditions of implementation of Soviet policy of productive forces' placement, was characterized by a high concentration of industrial capacity in some oblasts and gradual increase of their economic power. These regions produced the main share of GRP, export, and budget revenues in the country. In contrast to them, traditionally agricultural regions were considered to be low-competitive under conditions of active development of technology-intensive production. Moreover, the labor-surplus western regions became the source of workforce for entire Europe. The lack of timely reforming of the inherited economic structure of regions and efficient regional policy in new economic conditions has caused the loss of substantial capacity to improve and develop the Ukrainian economy and further increase the economic activity concentration in a range of cities (namely, in the capital) and regions, leading to growing interregional and intraregional imbalances.

Such territorial distribution of economic capacity in Ukraine, interregional disintegration of economy, and gradual exclusion of a range of areas from the country's economic space have intensified the confrontation between the economic center and periphery, urban and rural areas, and budget donors and recipients. Therefore, the Soviet model of regional development was predictably doomed as unable to secure economic growth by spreading the economic development impulses and maintain the integrity of the country's economic space. It is worth mentioning that the disadvantages of such a regional development model and risks of lack of understanding of the importance of the spatial factor of economic growth and role of regional policy in perspective were addressed by Ukrainian researchers in detail [1–8].

The 2008 financial crisis was the catalyzer for management inefficiency of regional development, while the occupation of Crimea by Russia and military actions in some areas of Donetsk and Luhansk oblasts were the main factor of destabilization of regional development processes causing economic decline due to the loss of control over some part of the territory and its economic capacity. It is worth mentioning that weak regional policy in Ukraine, in particular, in terms of impact on social integrity/cohesion of Ukrainian society, disregard of economic and social features of these oblasts' development, lack of adequate domestic policy measures in response to long-term soft integration of areas bordering Ukraine with the Russian "influence area", along with the gaps in external policy towards neighboring countries, have mapped the preconditions for Russian military aggression.

The large-scale Russian invasion of February 24, 2022 led to the economic, social and humanitarian crisis in Ukraine, new challenges, risks and problems: at least 12 million people have left their homes, 3.5 million refugees (who, thanks to

various EU support programs, have a chance to stay 1.5–3 years or even not to return to Ukraine), 8 million internally displaced persons [9] (ie loss of human capital and large-scale redistribution of labor resources within the country), threats to food security and financial stability of the country, shutdown of small and medium business and big enterprises in the war zone, destruction critical infrastructure and housing, the blockade of seaports (as a result, reduction of key export positions), loss of income and livelihoods of households, etc. significantly complicate the livelihood, survival and development of all regions and territorial communities, both those in the rear and those that in the combat zone or frontline territories. Of course, it will be the most important factor in reforming the model of spatial development in Ukraine in the war and post-war period.

The purpose of the article – to detect main trends of regional development of Ukraine’s economy, and substantiate imbalances and risks, which must be taken into account in the formation of a new model of regional development of Ukraine and improving financial-economic resilience under conditions of modern turbulence.

Results and discussion. Economic growth is the key quantitative feature of regional development since it is the only one able to ensure resource growth in the long run and thus human wellbeing increase. However, evaluation of the contemporary economic history of Ukraine shows that the Ukrainian economy has not reached the level of 1991 for the last 30 years. In 2020, Ukrainian GDP was only about 60 % of the 1990 GDP. During this time, neighboring countries have doubled and even tripled their GDPs. It is worth mentioning that the Ukrainian economy faced shock situations at least twice: in 2008 – due to global financial crisis and 2014 – due to domestic disorganization and external aggression that caused deep decline: the decline in 2008 was 15.1 % (i.e. the largest in the world) and in 2014–2015 – 15.8 % in two years (Figure 1) [10].

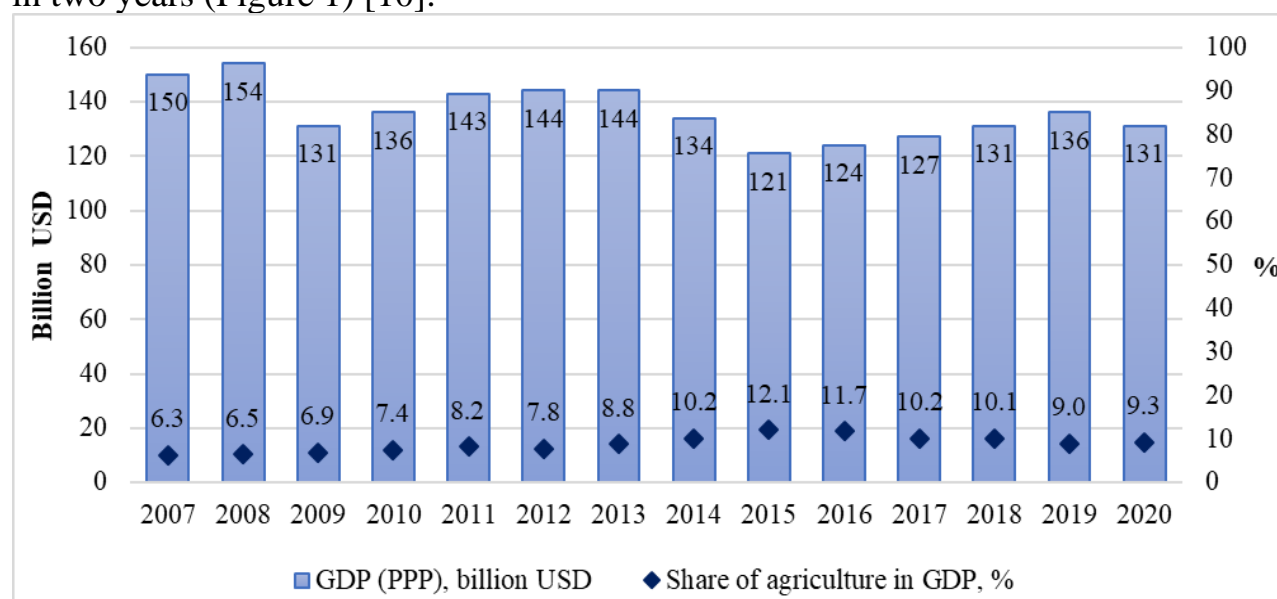


Figure 1. The dynamics of GDP (PPP) in Ukraine and the share of agriculture, 2007–2020

Source: calculated by the author based on the data of the State Statistics Service of Ukraine.

The abovementioned economic crises in the Ukrainian economy were accompanied by pessimistic structural changes in the economy – declining share of processing industry and growing share of agriculture in the country’s GDP. By the end of 2020, they amounted to 10.5 % and 9.3 %, respectively. The structural degradation of the economy caused the loss of its reproduction properties and determined the downward trend rather than only the crises faced by Ukraine and the world [11].

At the background of the intense increase of technology-intensive production in the global economy, Ukraine has turned into the exporter of low-margin goods, including agricultural, in the last decades. The importance of agriculture in the Ukrainian economy has been growing in the last 10 years: agriculture plays a key role in the modern Ukrainian economy, securing 9 % of GDP, 18 % of employment of economic entities, and 6 % of tax revenues. The share of agriculture in Ukrainian export exceeds 40 % (Figure 2). The most essential changes in the share of agriculture in GDP/export were observed in the years of economic crises, which indicates a relative resilience of the industry to crisis phenomena: agriculture falls much less than other industries in economic crisis.

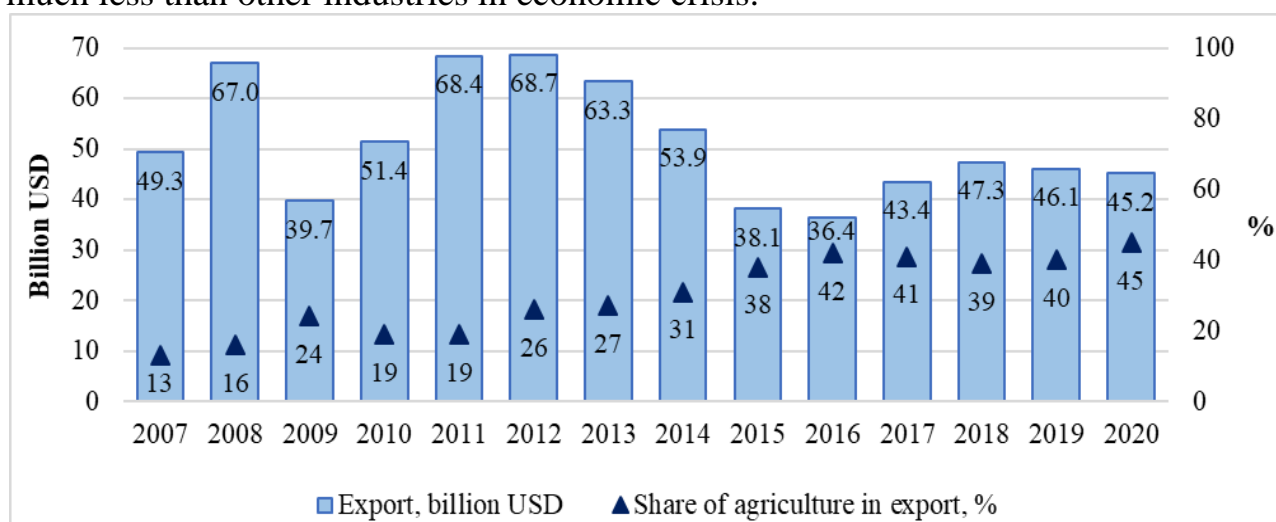


Figure 2. Dynamics of Ukrainian export and share of agriculture, 2007–2020

Source: calculated by the author based on the data of the State Statistics Service of Ukraine.

The above-mentioned trends inevitably affected the economies of regions and have become the preconditions of structural changes and spatial redesigning of economic activity processes in Ukraine. How progressive is such a transformation, and does it correspond to global trends in spatial development?

Modern economic science proves the existence of a range of economic growth patterns on a regional level, the main of which are the following: the regions with higher economic activity concentration develop faster; the regions oriented on technology-intensive economic activity types and with high innovation activity level have higher chances for economic growth; economic growth can result in growing interregional inequalities and imbalances in a long run; economically powerful regions are more resilient to financial and economic crises.

A range of current studies of regional development processes [12–17] address

the analysis of some of the mentioned aspects, yet, we will try to analyze these patterns in a more comprehensive manner with regard to securing the economic growth of Ukraine. Since Gross Regional Product (GRP) is the main resulting indicator of measuring economic growth on a regional level, we estimate the dependence between GRP annual average growth paces and GRP per capita in the initial period (Figure 3).

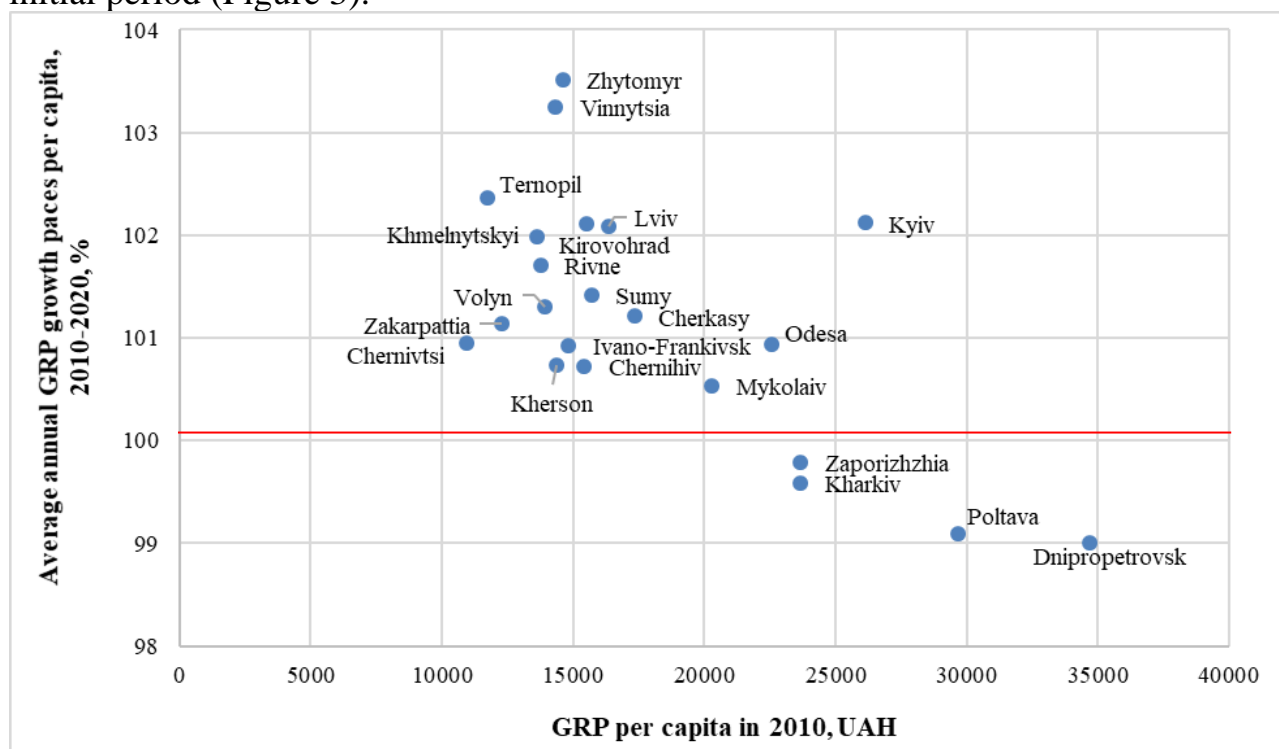


Figure 3. The dependence between GRP annual average growth paces (2010–2020) and GRP per capita in 2010*

Note. *Donetsk and Luhansk oblasts were excluded from calculations as their economic dynamics was mostly stipulated by Russian military aggression.

Source: calculated by the author based on the data of the State Statistics Service of Ukraine.

The results of calculations for 2010–2020 detect a group of Ukrainian regions demonstrating negative annual average economic growth paces in the analyzed decade. Unexpectedly, it is a group of most economically powerful regions – Dnipropetrovsk, Poltava, Kharkiv and Zaporizhzhia oblasts. It is worth mentioning that as of 2020, these four regions produced about the fourth part of Ukrainian GRP! Meanwhile, we can speak about a gradual loss of their economic capacity (GRP annual average growth paces of these regions are below 100 %).

All other Ukrainian regions had growth paces over 100 % at worse initial conditions (GRP per capita lower than in the mentioned four regions (excluding Kyiv oblast)). Zhytomyr and Vinnytsia oblasts had the highest growth paces (over 3 % annually), with GRP per capita in 2010 below the average national rate.

Therefore, the economic development of Ukrainian regions is determined by factors different from initial economic capacity, while the ten-year trends of regional economic growth do not verify the thesis about high development paces of economically more powerful regions.

The causes of this situation should be clarified when examining the structure of regions' economies in Ukraine and the technological effectiveness of output in the region. Evaluation of structural transformations in regional dimension allows speaking about spatial features of these processes development.

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Surprisingly, a comparison of the dynamics of GRP annual average growth paces and the share of high- and medium-tech products in regions' output in 2010–2020 indicates the reverse relationship between these indicators (Figure 4). Therefore, growing economic capacity due to high- and medium-tech output rather than low-tech one has been the peculiar feature of Ukrainian regions for the last decade. These processes are clearly reflected in the declining share of the processing industry in the total Gross Value Added (GVA) of the regions in 2014–2020.

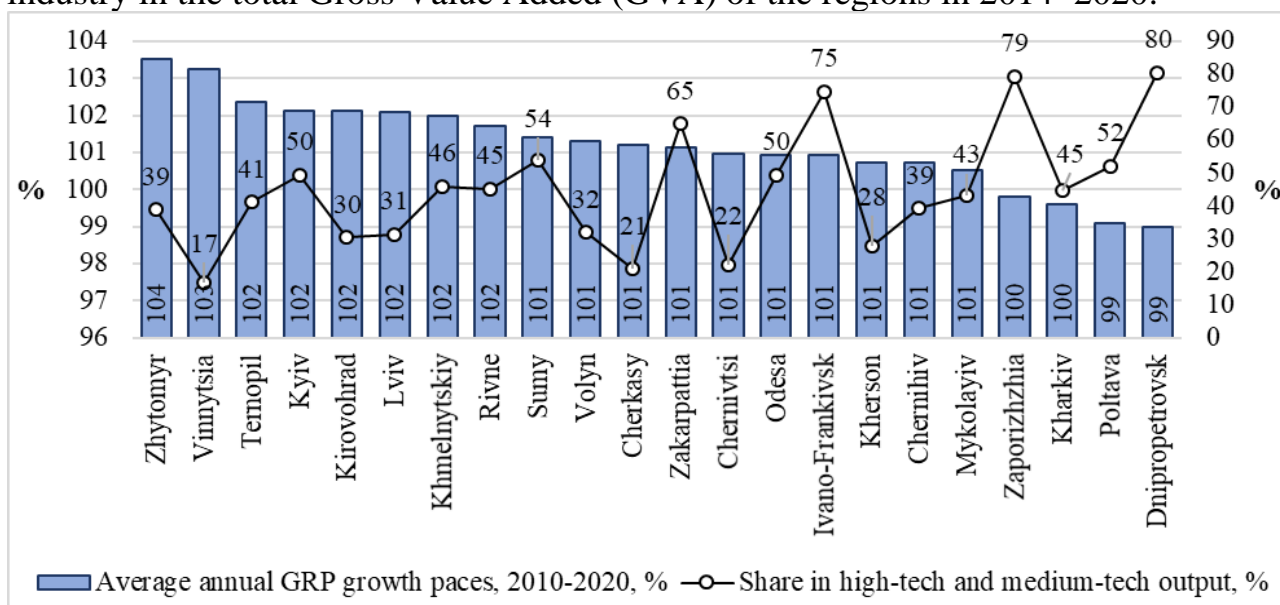


Figure 4. The dynamics of GRP annual average growth paces and the share of high- and medium-tech products in regional output, 2010–2020

Source: calculated by the author based on the data of the State Statistics Service of Ukraine.

In fact, there is a situation when regions oriented on production and export of low-tech products, including agricultural, develop faster. Analysis of the dependence between GRP annual average growth paces and agricultural output in the regions in 2010–2020 allows making the following conclusions (Figure 5):

- all Ukrainian regions without exceptions have increased agricultural output in the last decade;

- regions leading by GRP growth are the leaders in terms of growth in agricultural output (Zhytomyr, Vynnytsia, Khmelnytskyi oblasts). Meanwhile, they simultaneously increase their capacities both in crop and livestock production;

- general dynamics of economic growth in Ukraine is determined by the development of such regions as Zaporizhzhia, Dnipropetrovsk, Kharkiv, and Poltava

oblasts (these regions concentrate over the fourth part of GRP produced in Ukraine). Their negative trend stipulates the negative GRP growth rate in Ukraine overall. GRP decline in these regions is accompanied by the growth of agricultural output, yet it does not cover the loss of industrial capacity.

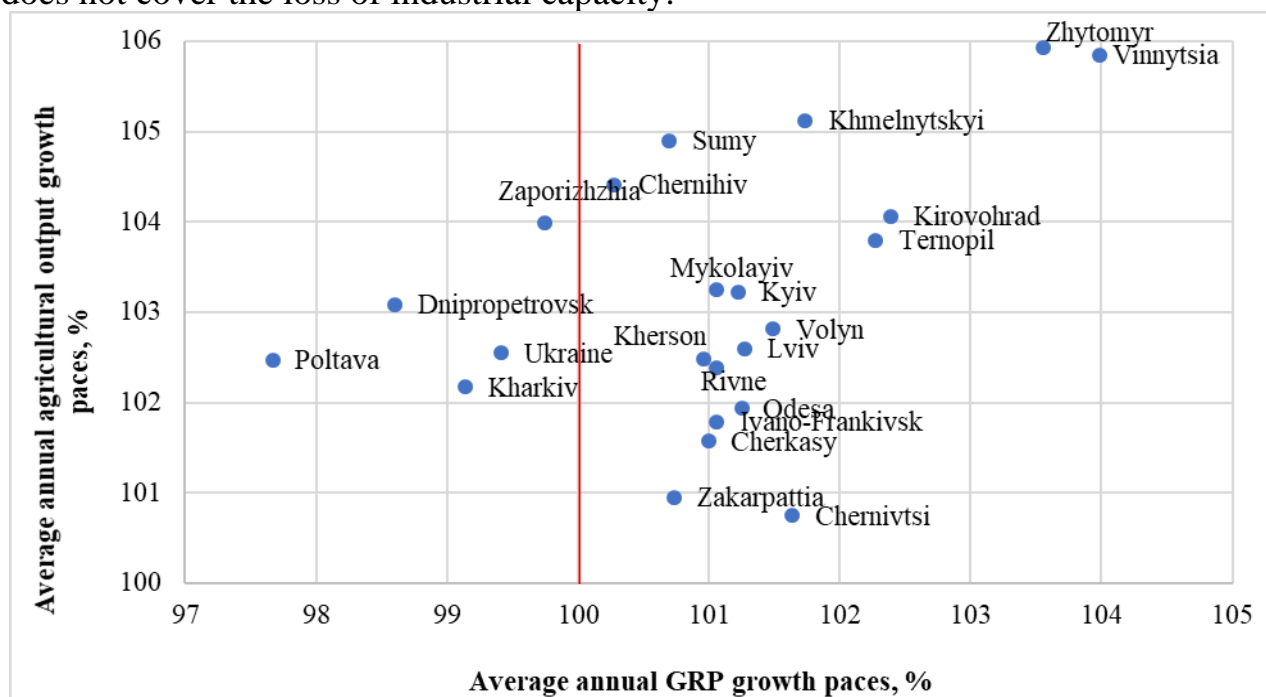


Figure 5. The dependence between GRP annual average growth paces and agricultural output in the regions in 2012–2020

Source: calculated by the author based on the data of the State Statistics Service of Ukraine.

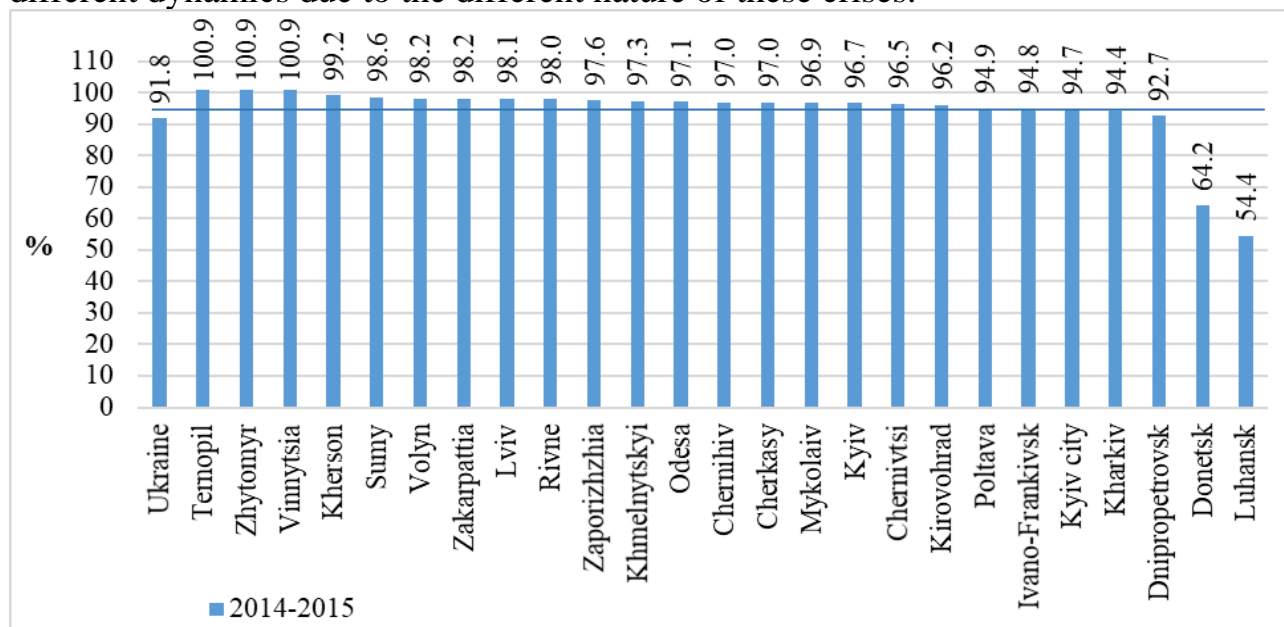
Therefore, Ukrainian regions are not developing according to generally recognized global development principles – their economic success is secured by orientation on agricultural output (usually low-margin one) rather than high-tech types of economic activity and intense innovative activity. Does this development strategy stand a chance of success in the long term?

Speaking about the perspective, the flow of direct investment (equity) in the economies of regions should be intensified. The following are the trends that have been dominating in the regions leading by economic development paces (Vinnytsia, Zhytomyr, Kirovohrad oblasts) in recent years: the positive net inflow of foreign direct investment (against the backdrop of negative rate in Ukraine as a whole) and substantial increase in foreign investment in manufacturing, in particular, processing industry (against the backdrop of lower investment in agriculture) [19]. It is worth emphasizing that at the current stage, economic growth in these regions has not transformed into positive social effects: employment and income level remain lower here than average national rates, same as the parameters' growth paces.

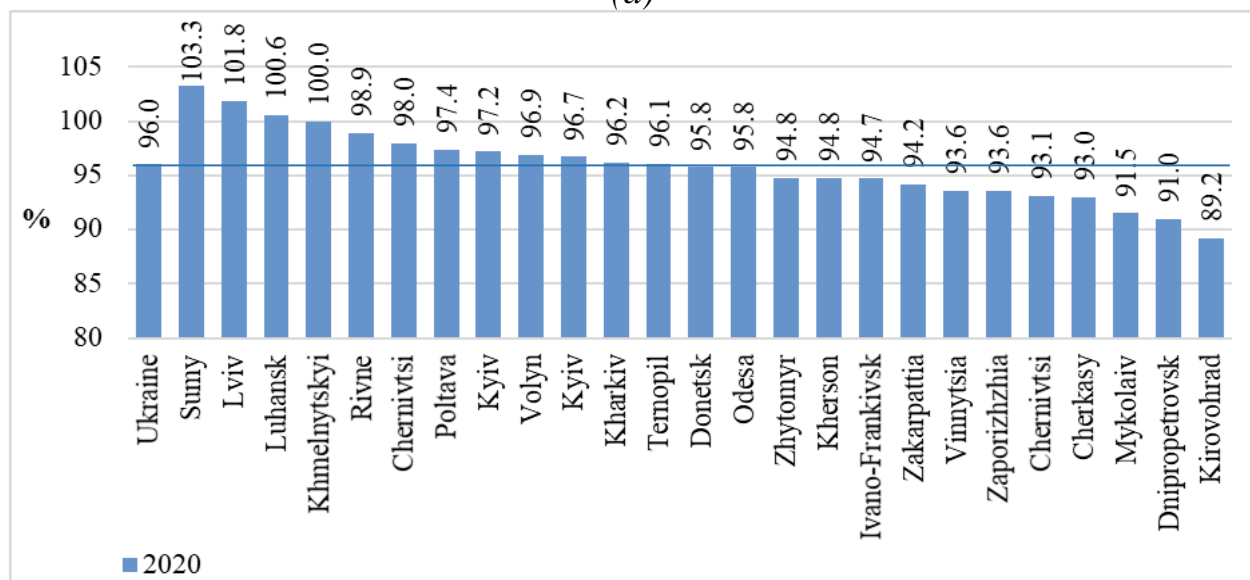
The dynamics of interregional imbalances by main economic parameters is one of the criteria for the efficiency of regional development processes. Being a quite large country by area, Ukraine has always been characterized by significant interregional imbalances of regional economic capacities. The analysis of asymmetries shows the increasing interregional differentiation from 2.7 % of annual

average growth by foreign direct investment (equity) per capita in the analyzed period to 34.0 % by capital investment per capita.

The economic behavior of Ukrainian regions and their resilience in the 2014–2015 and 2020 crises will be analyzed in detail as they had a very spatially heterogeneous impact on regional economic dynamics. The comparison of GRP growth dynamics in these periods (Figure 6) proves that different regions showed different dynamics due to the different nature of these crises.



(a)



(b)

Figure 6. Comparison of GRP growth paces in crisis periods: 2014–2015 (a) and 2020 (b)

Source: calculated by the authors based on the data from <http://www.ukrstat.gov.ua>.

The 2014–2015 crisis turned out to be the most difficult for regions that border Russian Federation and those traditionally oriented on Russian Federation in external trade. Meanwhile, western and central oblasts felt the crisis impact much less. Yet,

the destructive impact of the crisis has resulted in a significant outflow of labor and financial capital, physical destruction of production and social infrastructure in some regions (that border with Russia), and a growing demographic burden in other Ukrainian regions.

General economic destabilization in Ukraine and the world in 2020, suspension of operations of some industries and companies, and declining mobility of the population and businesses caused the GDP decline in Ukraine by 4 %. Economic growth of regions in 2020 compared to the previous year was characterized by positive dynamics of retail turnover despite the quarantine restrictions in retail trade and negative dynamics of real wages, unemployment, industrial and agricultural output. At the same time, Ukrainian regions demonstrated quite heterogeneous and sometimes contradictory trends.

The 2020 crisis had completely different origins. The western regions of Ukraine were the first to face restrictions as the pandemic had reached them first and the number of patients was growing the fastest in the first-second quarter of 2020. Yet, it is worth mentioning that Lviv oblast was one of three regions (along with Sumy and Luhansk) demonstrating positive economic growth paces in 2020. Interestingly, such leaders by economic and, in particular, industrial capacity as Dnipropetrovsk and Kharkiv oblasts have turned out to be very vulnerable in economic crises.

The analysis of economic development trends in Ukrainian regions in coronavirus crisis shows that the impact of the COVID-19 is territorially differentiated and its various risks are largely stipulated by objective economic and spatial features of regional development. Different regions demonstrate differentiated resilience levels in crises caused by objective and subjective factors. Meanwhile, there are no reasons to speak about the higher resilience level of economically more powerful regions.

The creation of a favorable business climate as an unconditional precondition for ensuring the resilient economic growth of the country and its regions has been among the priorities in the 30 years of Ukraine's development as an independent country. Most of the reforms permanently implemented in the country are directed at the achievement of this goal. The general dynamics of Ukraine's position in global economic rankings¹ shows that the reforms implemented in Ukraine have already largely resulted in an improved business climate in the country. Yet, the achieved results haven't converted into consistent dynamics of economic growth and an increasing level of Ukraine's competitiveness in the global economy. Therefore, it is early to talk about the efficiency of these reforms and the creation of an environment in Ukraine that would promote to entrepreneurship and investment inflow in the economy. Main problems in development of entrepreneurial environment include low level of economic entities' intellectual property and assets protection, inefficient

¹Doing Business, Economic Freedom Index, The Global Competitiveness Index [19; 20; 21].

judicial system in Ukraine, low financial and investment freedom of business, lack of access to credit resources to launch and conduct the entrepreneurial activity, etc. It has led to the loss of industrial and energy capacity, low level of infrastructure development, low labor productivity, and extremely low efficiency of most economic and political institutes.

To detect regional peculiarities of the quality of the business environment in Ukraine, we use the results of the research conducted by the Better Regulation Delivery Office² titled Regional Doing Business, which shows the study of doing business conditions in regions and cities of Ukraine. The Regional Doing Business rankings³ are calculated as a total of points the regions get by six components: starting a business, paying local taxes, registering a land plot, getting electricity, dealing with construction permits, and e-services⁴. The evaluation was conducted following the adapted methodology of the World Bank based on the survey of entrepreneurs from all regions of Ukraine [21].

The analysis of Regional Doing Business – 2020 components (Table 1) demonstrates the positive changes in all regions of Ukraine by registering a company (from 64 to 80 points of 100 possible) and registering a land plot and getting electricity (yet, with regard to the last two components, entrepreneurs in a range of regions do not see the problems in these domains). The most difficult situation in the regions is with paying local taxes and e-services. Entrepreneurs in almost every region marked the functioning of these domains as unsatisfactory. The “Payment of local taxes” component measures the burden on businesses from local taxes and the transparency of data on these taxes (information on the websites of local councils). Entrepreneurs’ rating of this component as unsatisfactory may indicate that local councils are trying to set maximum local tax rates to fill local budgets, which affects the local business climate.

It is worth assessing the relationship between the quality of business environment in Ukrainian regions and GRP growth paces as the resulting indicator of economic activity. The assessment (Figure 7) allocates four groups of regions:

- *high GRP growth paces – high business environment quality (H – H)*. The group includes the leaders by growth paces – Zhytomyr, Vinnytsia, Volyn oblasts, Kyiv, etc. It shows that their development is accompanied by improved local business climate (or vice versa, favorable business climate secures higher annual average economic growth paces of these regions). However, there are only 8 such regions! It is worth mentioning that most of them have improved their positions compared to 2018;

- *high GRP growth paces – low business environment quality (H – L)*. The group of regions is the most numerous. The positive growth paces in the oblasts of the

² Better Regulation Delivery Office – an independent expert and analytical center funded by international donors, in the first place, European Union under the FORBIZ project and EU4Business initiative.

³ Doing Business Regional 2020. <https://rdb.brdo.com.ua>.

⁴ A region can score maximum of 100 points by each component. So, the maximum possible number of points is 600.

group are by no means ensured by an improved entrepreneurial environment. Moreover, most regions in the group are outsiders by its quality and the loss of positions in the rankings;

Table 1

Rankings of Ukrainian regions by Regional Doing Business–2020

Rankings	Region	Dynamics 2020 to 2018*	Total points	Starting a business	Dealing with construction permits	Registering a land plot	Getting electricity	Paying local taxes	E-services
1	Zhytomyr	2	356	79	51	73	75	50	28
2	Chernihiv	4	348	75	74	75	51	41	32
3	Kyiv	1	341	77	64	68	46	39	47
4	Rivne	3	340	76	61	44	66	61	32
5	Ivano-Frankivsk	-4	338	80	55	63	67	32	41
6	Vinnitsia	-4	338	71	64	70	63	41	29
7	Volyn	1	335	75	63	59	71	44	23
8	Lviv	-3	331	73	58	63	60	36	41
9	Dnipropetrovsk	3	330	73	58	68	52	30	49
10	Donetsk	-1	329	76	56	57	61	53	26
11	Sumy	4	328	74	50	79	53	40	32
12	Poltava	1	326	78	47	68	70	40	23
13-	Zaporizhzhia	10	325	76	53	64	55	36	41
14	Ternopil	-2	325	74	46	40	74	45	46
15	Kirovohrad	-5	323	68	54	58	65	49	29
16	Zakarpattia	3	321	79	54	48	64	44	32
17	Cherkasy	0	320	64	64	75	52	42	23
18	Odesa	4	317	77	56	58	51	46	29
19	Chernivtsi	6	316	82	46	77	43	42	26
20-	Kyiv	-1	314	68	52	63	54	36	41
21	Luhansk	3	314	78	44	77	51	32	32
22	Kharkiv	-1	313	68	52	59	54	45	35
23	Kherson	-5	310	72	57	47	57	42	35
24	Khmelnyskyi	-8	304	66	40	48	59	44	47
25	Mykolaiv	-11	303	66	53	58	56	38	32

Source: developed based on Regional Doing Business – 2020, <https://rdb.brdo.com.ua>.

- low GRP growth paces – high business environment quality (L – H). The analysis shows that the group includes only 1 oblast – Dnipropetrovsk. In 2020, Dnipropetrovsk oblast was ranked 9th by the ease of doing business, having improved its rank by 3 positions. Therefore, the region is gradually creating a favorable business environment by developing small and medium businesses but currently, their activity does not allow covering industrial capacity losses;

- low GRP growth paces – low business environment quality (L – L). The group includes three leaders by economic capacity – Zaporizhzhia, Poltava and Kharkiv oblasts. Their economies have been characterized by the loss of positions in the last decade. Meanwhile, low positions by the quality of business environment show that these regions used to be oriented on large companies of the industrial sector and haven't managed to reorient on the support of business and entrepreneurship activity stimulation. Yet, it is worth emphasizing the positive dynamics of improving the

quality of the business environment in Zaporizhzhia oblast. It contributed to the rise in the rankings by 10 positions in 2020.

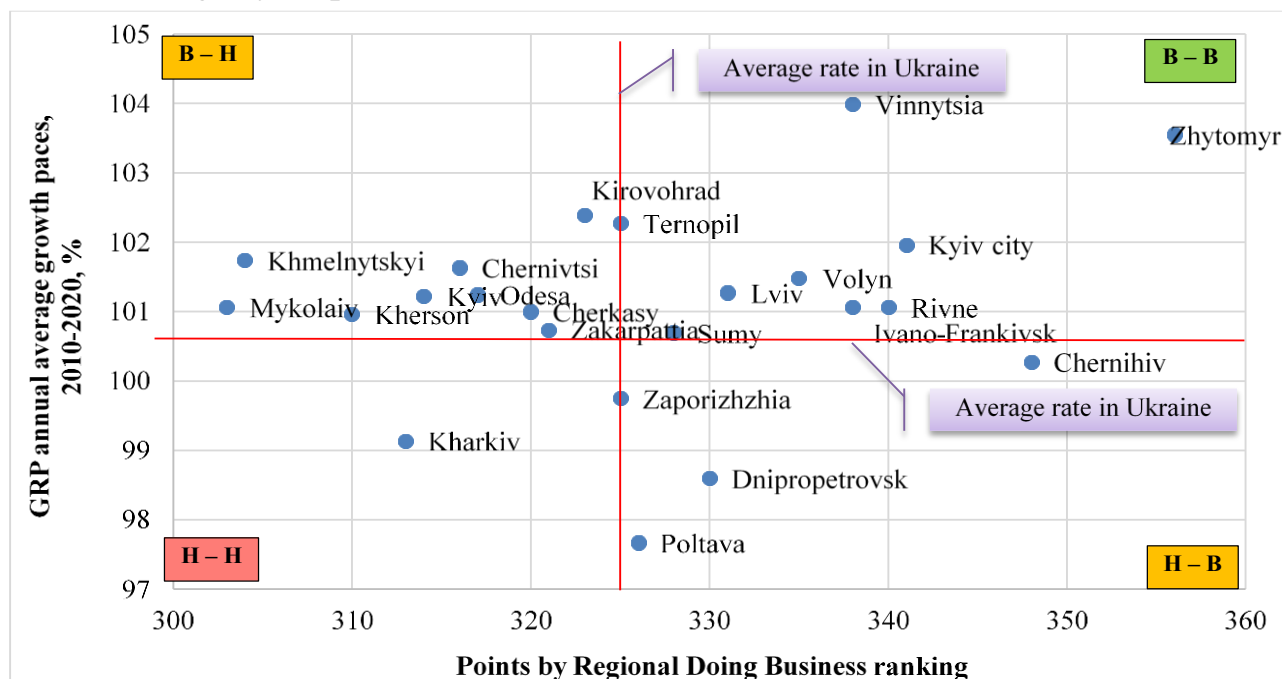


Figure 7. Dependence between GRP growth paces and the quality of business environment in Ukrainian regions

Source: calculated by the authors based on the data <http://www.ukrstat.gov.ua>.

The economic theory defines a wide range of indicators of the business environment efficiency as the key precondition of ensuring economic growth, a substantial share of which are interrelated. The national expenditures as a percentage of the country's GDP constitute one of the most comprehensive indicators that allow evaluating the share of economy redistributed through the state budget. The higher is the share, the higher is the level of government intervention in businesses. Meanwhile, the optimal values of the indicator that secure the best economic growth are determined for different groups. Taking into account the level of the institutional environment development in Ukraine, 0.33–0.35 are the values of national expenditures to the country's GDP ratio recommended for our country [24]. Although the level of the indicator has reduced about 50 % of the 2014 GDP to approximately 40 % of 2019 (and increased in the crisis 2020) in recent years in Ukraine, it is still far from optimal values.

The level of the shadow economy is an equally important indicator of the quality of the business environment. Shadow economy, including the VAT minimization schemes, grey import, smuggling, the schemes of non-payment of taxes when exploiting agricultural lands, etc., significantly distort competition and lead to shortfalls in the revenues to the state budget of 250–300 billion UAH a year [25]. Moreover, the poor entrepreneurial climate has already caused the monopolization of entire sectors of the Ukrainian economy, creating threats for economic growth of the country and its regions. It is possible due to inefficient policy in this direction. The government has moved away from the problems of economic monopolization and

evaluation of the impact some monopolies have on the country's security. Furthermore, the share of governmental banks that dominate in the banking sector with a share of over 50 % has been growing lately.

Negative regional development trends in instability caused by the coronavirus are accompanied by the deteriorating business climate in the regions and unstable entrepreneurship activity. The main trends affecting economic growth of the regions include falling economic activity of businesses, intensification of tax avoidance in a large business, growing institutional turbulence of business climate, growing volumes of paid personal income tax and single tax under conditions of falling business income, foreign investment outflow, the decline in official and unofficial employment, and growing national expenditures to GDP ratio, which shows the increase in regulatory government intervention in the economy.

Conclusions. The conclusions give the ground to speak about the development of a new regional development model in Ukraine, which is defined by the following trends and risks:

- regional transformation of Ukrainian economy: regions traditionally concentrating the industrial capacity and producing more than a third part of the country's GRP have turned out to be on the sidelines of competition – Donetsk and Luhansk oblasts due to the loss of a substantial share of their territories in the course of Russian military aggression and Dnipropetrovsk (-10 %), Kharkiv (-4 %), and Zaporizhzhia (-3 %) oblasts due to the gradual loss of industrial competitiveness and inability to develop the favorable business environment. Meanwhile, the new leaders have emerged (by the economic capacity growth paces) – Zhytomyr (+35% in the last decade), Vinnytsia (+32%), Kirovohrad (+21%), and Ternopil (+23%) oblasts, which are growing due to agricultural development. It generates the risk of growing imbalances in the economic development of Ukrainian regions and requires the development of new approaches to their regulation;

- interregional comparisons of the business environment condition and economic growth of Ukrainian regions show that the regions leading by economic growth paces are characterized by the comparatively higher quality of business climate. Moreover, they have lately improved their positions in regional doing business rankings. Meanwhile, the most numerous group of Ukrainian regions managing to keep the positive growth paces are the outsiders by both the business climate quality and the loss of ranking positions. The most complicated is the situation with industrial regions like Zaporizhzhia, Poltava and Kharkiv oblasts. Therefore, the regions that used to be oriented on large enterprises of the industrial sector have not managed to reorient themselves on the support of entrepreneurship and stimulation of business activity. Zaporizhzhia and Dnipropetrovsk oblasts have substantially improved their positions in the rankings;

- the 2020 economic crisis caused by the expansion of the coronavirus pandemics became another blow (after the 2008–2009 and 2014–2015 crises) for Ukraine's economic system, which has been demonstrating the clear orientation on deindustrialization, production and export of the low-margin agricultural output, and

loss of technological and innovative capacity in the last decade. Ukrainian regions are hardly developing according to the recognized global development principles. Their economic success is ensured by orientation on the agricultural output (usually with low value added) rather than technology-intensive economic activities and dynamic innovative activity. These conditions are supplemented by a delay in the implementation of radical reforms (namely, regarding the of intellectual property and assets protection, inefficient judicial system in Ukraine, growing level of financial and investment freedom of business and access to credit resources to launch and conduct the entrepreneurial activity, etc.) directed at the development of a qualitative institutional environment for business make the risk of further loss of economic capacity to achieve sustainable growth by Ukraine and its regions increasingly relevant.

The creation of a new model of economic development in Ukraine, based on endogenous development mechanisms and territorial capital, may be the answer to these trends and challenges. The pillars of this approach are creativity and entrepreneurship, intellectual and relational capital, territorial ties and identity. The crux is to harness the wealth and diversity of unique factors that are the basis for building a regional environment of innovation and entrepreneurship and territorially embedded smart specializations. A key challenge in this approach is to awaken the ‘dormant’ potential inherent in local and regional communities and create new economic value [26]. In endogenous development, external financial resources and the development of ‘hard’ (technical) infrastructure are important, but at the same time insufficient to unlock the dynamics of sustainable economic development. The success factor is the use of intangible resources and the mobilization of synergy mechanisms in regional development processes.

The diagnosed trends and threats call for a new regional policy model and updated set of tools to provide the economic development of Ukrainian regions to improve financial-economic resilience under conditions of modern turbulence. This model should be based on strong self-governance and financial self-reliance and a bottom-up and community-based approach. It should be based on regional partnership and co-management, on the one hand, and the co-responsibility of self-governing communities for the development of their own region, on the other.

The first step in this direction was taken with the territorial-administrative reform of the country in 2020. It reinvigorated thinking about regional ‘small homelands’ and gave impetus to the creation of new development capacities of Ukrainian regions. This bottom-up model of development and regional policy-making appears to be a promising approach for Ukraine, tested in the regional economic transformation of the Central and Eastern European countries – Member States of the European Union.

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