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## REGIONAL ASPECTS OF BANKING SYSTEM DEVELOPMENT IN CASE OF WESTERN BORDER AREAS OF UKRAINE

**Abstract.** One of the key factors to ensure the proper development of regions is the functioning of banking institutions in them. It is bank as an independent financial institution, accumulating temporarily free funds of legal entities and the population, by active operations creates serious infusion into the economy of the region in the form of investment, financing some separate areas of the business entities economy. The regional banking system affects the whole region development, thereby creating the conditions for active investment, ensuring adequate financing of companies, and thus increasing production and employment and, consequently, improving people's lives level. With the expansion of the European Union the western border of Ukraine acquired a new meaning. Therefore, was analyzed the state of the banking sector in western border regions of Ukraine and were examined existing regional disparities in the development of the regional banking system. The results of empirical analysis of the process are given. The recommendations on the development of the credit market of Western Ukrainian region are provided.

**Key words:** banking sector, banking system, western border regions of Ukraine, region, regionalization.

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## РЕГІОНАЛЬНІ АСПЕКТИ РОЗВИТКУ БАНКІВСЬКОЇ СИСТЕМИ НА ПРИКЛАДІ ЗАХІДНИХ ПРИКОРДОННИХ ОБЛАСТЕЙ УКРАЇНИ

**Анотація.** Одним із головних чинників забезпечення належного розвитку регіонів є функціонування в них банківських установ. Банківська система регіону впливає в цілому на регіональний розвиток, цим самим створюючи умови для активної інвестиційної діяльності, забезпечення належного фінансування підприємств, а отже і збільшення обсягів виробництва та зайнятості і, як наслідок, підвищення рівня життя населення. З розширенням кордонів Європейського Союзу нового значення набув західний кордон України. Саме тому проаналізовано стан банківського сектору західних прикордонних областей України, а також розглянуто наявні диспропорції у розвитку регіональної банківської системи.

**Ключові слова:** банківський сектор, банківська система, західні прикордонні області України, регіон, регіоналізація.

**Формул:** 0, рис.: 1, табл.:3, бібл.:9.

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## РЕГИОНАЛЬНЫЕ АСПЕКТЫ РАЗВИТИЯ БАНКОВСКОЙ СИСТЕМЫ НА ПРИМЕРЕ ЗАПАДНЫХ ПОГРАНИЧНЫХ ОБЛАСТЕЙ УКРАИНЫ

**Аннотация.** Одним из главных факторов обеспечения надлежащего развития регионов является функционирование в них банковских учреждений. Банковская система региона влияет в целом на региональное развитие, тем самым создавая условия для активной инвестиционной деятельности, обеспечение надлежащего финансирования предприятий, а следовательно и увеличение объемов производства и занятости и, как следствие, повышение уровня жизни населения. С расширением границ Европейского Союза новое значение приобрела западная граница Украины. Именно поэтому проанализировано состояние банковского сектора западных приграничных областей Украины, а также рассмотрены имеющиеся диспропорции в развитии региональной банковской системы.

**Ключевые слова:** банковский сектор, банковская система, западные пограничные области Украины, регион, регионализация.

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**Introduction.** In recent years the development of European integration processes causes strengthening of regionalization processes, increasing the role and importance of individual territorial-administrative units in the national and European economy. In Ukraine is growing the importance and actuality of intersate regionalization issues, which involves redistribution of functions and powers between the capital and the periphery, between the center and territories in favor of the latter.

Since independence, there was a rapid development of the financial market of Ukraine, and the dominant element of it became the banking system. It is not surprising that the most important role in supporting and financing the economic revitalization of entities are performing banking institutions. However, the banking system of Ukraine is characterized by irregular and chaotic development in a regional context. The dominant trend in the concentration of financial capital in Kiev and in four financial centers of Ukraine, namely in Dnepropetrovsk, Lviv, Odesa and Kharkiv enhanced the deformation of the country economic space. The result of it is a lack of financial support of less developed regions, the outflow of financial resources from their territories, deepening of disparities in the socio-economic development. That said, there is a clear actuality in studying the relevance and ways to develop regional financial market infrastructure, which building blocks at this time are banks.

This issue is of particular relevance due to the conduction of administrative reform in Ukraine, which makes the transfer of power from the center to the regions. This will give to regional authorities additional features and tools to impact on the economy development and on the financial system that in the long run may lead to increased cooperation between banks and the real economy sector of regions. The effectiveness of this interaction will depend just on regional banking system building [1, p. 56]. Accordingly, raises a need in study and follow up new ways of banking systems building that have to level disparities in regions socio-economic development.

**Statement of the problem.** The purpose of the study is to identify the characteristics of western border regions of Ukraine banks network development, to study their territorial banks level of sufficiency.

**Analysis of recent researches and publications.** Imperfection issues of the organizational structure of the banking sector at the regional level was studied by a limited range of scientists. To it, inter alia, are belonging V. Belyaev, O. Drugov, U. Hruzdevych, I. Gutsal, V. Zelenyuk, Y. Kachayev, M. Mohylnytska, V. Khodakivska, M. Yaremchuk. These and some other scientists concluded a scientific foundation for regional aspect of the banking system of Ukraine. However, the policy or even a clear strategy for regional development of the banking system is missing, more than that, is missing a clear legal and regulatory framework functioning of regional banks.

**Resarch results.** Undoubtedly, the regional aspect of the economy functioning is integrating, because in regions are created prerequisites for sustainable economic

development of spatial areas that ultimately lead to the growth of the state. In this context, an important role is played namely by border regions of the country. With the expansion of the European Union the western border of Ukraine acquired a new meaning, which covers five areas - Volyn, Lviv, Zakarpattia, Ivano-Frankivsk and Chernivtsi. Occupying an advantageous geographical position, these regions area is the western gate of Ukraine to Europe, creating it certain advantages in foreign trade activities.

It should be noted that 19 of the 25 regions of Ukraine are borderline, and their total area is about 77% of the whole state territory. As for the western border regions of Ukraine, their total area is 76.7 thousand km<sup>2</sup> or 12.7% of the whole country territory with a total population of 7131.6 thousand people (as of 01.02.2015) [2]. The western border areas occupy an important place in the economy of Ukraine, producing about 15 percent of industrial and agricultural products. It formed an industrial and agricultural type of the economic complex.

It should be noted that the specific of the western border regions of Ukraine is the actual absence of big business (only 0.12% of total number of enterprises). Are actively acting in the region small and medium enterprises, their share of total number of enterprises as per results for 2013 are respectively 95.2% and 4.68% [3-7]. Undoubtedly, small businesses are a powerful factor of economic restructuring in the region, accelerating its scientific and technological development and the formation of a new social layer. At the same time, Ukrainian government policy of facilitating the restoration and expansion of small businesses access to financial resources, demonstrates poor results. Moreover, given the events in the Ukrainian economy and politics of 2013-2015 years, the economic downturn and rising of budget deficits, significant direct or concessional financing of small and medium businesses from the government side is not possible due to limited resources and is not desirable because of the high probability of unequal access to these resources.

As a result, at the present stage of development, the vast majority of businesses of western border regions of Ukraine is experiencing an acute shortage of funds for its own business activities. Therefore, the success of small and medium enterprises recently is placed more closely in dependence to the degree of involvement of banking institutions credit resources to the system of the financial ensuring of reproduction processes.

*Table 1*

*Structure of capital investments of western border regions of Ukraine by sources of financing in the years 2008-2013, in% of total volume<sup>1</sup>*

Years	2008	2009	2010	2011	2012	2013
Source of financing						
State budget funds	8,80	6,72	10,66	9,56	11,46	2,60
Funds of local budgets	5,29	5,97	13,21	3,90	3,89	4,18
Own funds of enterprises and organizations	50,16	55,38	40,36	41,47	44,97	49,10
Bank credits and other loans	15,13	13,47	7,98	19,24	7,51	11,23
Funds of foreign investors	4,04	4,20	1,79	1,30	0,32	1,21
Population funds for the construction of own apartments	3,45	2,08	2,55	2,65	1,49	3,47
Population funds for individual housing construction	10,01	7,10	18,54	15,60	22,29	23,36

*Extension table 1*

Other sources of funding	3,12	5,08	4,91	6,29	8,07	4,85
Total	100	100	100	100	100	100

<sup>1</sup>Note. Compiled by the author according to the official websites of the Central Statistical Office of Volyn, Ivano-Frankivsk, Zakarpattia, Lviv and Chernivtsi regions [3-7].

As shown by data in the Table 1 in the structure of capital investment sources of western border regions of Ukraine the key are funds of enterprises and organizations, which share in the overall structure for 2008-2013 is consistently about 50%. Own enterprise sources compared to borrowed and involved are characterized by simplicity and speed of engagement and do not require the payment of loan interest in any of its forms. The second source of business entities financing are bank loans. Specific weight of capital investments covered by bank loans was the largest in 2011 and amounted to 19.24% of total funding. By results of 2013 the share of bank loans was 11.23%, a 3.72 percentage point more compared to the previous year [3-7]. Should be noted that the overwhelming focus on own resources as a source of investment is typical. However, many experts express their opinions on the need for immediate corrective measures and changes in the structure of investment resources for external funding sources.

A key factor in ensuring the proper development of the regions is banks functioning in them. The banking system affects the region as a whole on regional development, thereby creating the conditions for active investment activities, ensuring the proper financing of enterprises, and thus increasing of production volumes and employment and, consequently, improvement of living standards.

It is worth paying attention to the fact that according to the National Bank of Ukraine as of 01.02.2015, the regional division of registered banks is as follows (table. 2).

*Table 2**Regional division of registered banks in Ukraine [8]*

Region	Number of registered banks, pcs.
Zaporizzhja	3
Kyiv an region	115
Dnipropetrovsk	8
Donetsk	3
Odesa and region	8
Lugansk	2
Lviv	5
Poltava and region	2
Sumy	1
Uzhgorod	1
Kharkiv	5
Chernigiv	2
Total	155

The results of analysis of regional development of the banking system testify its significant asymmetry. The majority of operating on 01.02.2015 banks - legal entities - are registered in Kiev: 115 of 155 (74.19% of total), 21 banks - in the eastern regions of Ukraine (13.55%) and only 6 banks in western regions (3.87%). On the remaining territory of Ukraine (the northern, southern and central regions (without Kyiv) are registered only 13 banks (8.39%) and in 12 regions have been not registered any banks - legal entity. Accordingly, such

imbalances can not fail to affect the socio-economic development of a certain region in our case - the western border regions of Ukraine.

Superficial evaluation of regional markets, ignoring economic characteristics of regions of the state is typical for most banks in Ukraine. Let us analyze the banking activities of western border regions of Ukraine more precisely. As experience and statistics shows, the better is developed the banking system in the region, the better there develops the entrepreneurship. The furnishing level of the population by banking institutions in the Western region is insufficient. This conclusion is based on the above analysis. Moreover three of the five western border regions of Ukraine do not have any single bank - legal entity. Moreover the regional structure of placing central offices of banks is constant during the last eight years.

During 2013 next to banks in which structure the european capital is dominated (PJSC "Kredobank" - Polish investments make up 99.6%, PJSC Bank "Lviv" - 99.87% of shares are owned by shareholders from Iceland, PJSC "Idea Bank" - 92.3% - Polish investments) appeared a bank with russian capital. So, after a change of the ownership in PJSC "VS Bank", namely on 16/12/2013, 99.9% of its share capital was owned by PJSC "Sberbank of Russia". Thus, in the western region is now registered and operates six banking institutions – juridical entities, including one registered in Uzhgorod PJSC "ComInvestBank" (bank with 100% domestic capital) and 5 banks registered in the city of Lviv (one of them PJSC "Oksi Bank" with 100% domestic capital).

The data in the table 3 [8] shows that according to the classification of the National Bank of Ukraine, none of the regional banks in the western region is not included in Group 1 of banks (the largest). The high positions among all banks during the period under review took PJSC "Kredobank" (Lviv). PJSC "VS Bank" and P JSC "Idea Bank" as of 01.01.2015, are the members of the Group 3 of banks, half of regional banks always was included and is in Group 4 of banks (the smallest).

*Table 3*

*The rating of banks of western border regions of Ukraine for 2008-2015 years  
(1.01 in each year) \**

Years	2008	2009	2010	2011	2012	2013	2014	2015
Banks	Place and group							
VS Bank	58 (III)	48 (III)	47 (III)	50 (III)	60 (IV)	74 (IV)	75 (IV)	54 (III)
Idea Bank	-	113 (I)	121 (I)	103 (I)	86 (IV)	73 (IV)	62 (IV)	51 (III)
KomInvest Bank	126 (I)	125 (I)	109 (I)	101 (I)	108 (I)	110 (I)	109 (I)	91 (IV)
Kredobank	29 (II)	29 (II)	33 (II)	37 (II)	46 (III)	45 (III)	48 (III)	34 (II)
Lviv	104 (IV)	99 (IV)	102 (IV)	108 (IV)	112 (IV)	108 (IV)	115 (IV)	87 (IV)
Oksi Bank		168 (IV)	153 (IV)	148 (IV)	158 (IV)	151 (IV)	153 (IV)	111 (IV)

\* Compiled by the author based on the data from the official site of National Bank of Ukraine.

Largely the stability and reliability of the banking system depends on the level of capital. Therefore, one of priority directions of banking is to increase the amount of capital and improve its quality in order to neutralize the negative effects of banking risks and to protect the interests of depositors.

As shown in Fig. 1, during the years 2009-2015 the capital of banks-juridical entities of western border regions of Ukraine increased from 1,346,031 thousand USD in 2009 to 1,896,236 thousand USD in 2015, that is 550 205 thousand UAH. The growth of bank capital of these banks of the western region for the last seven years was due to the increase of the own capital on 1,853,026 thousand USD and of the liabilities on 2,547,515 thousand UAH. Results of banking institutions operations in western border regions of Ukraine are certifying the low growth rate of capital, equity and liabilities within the last seven years.

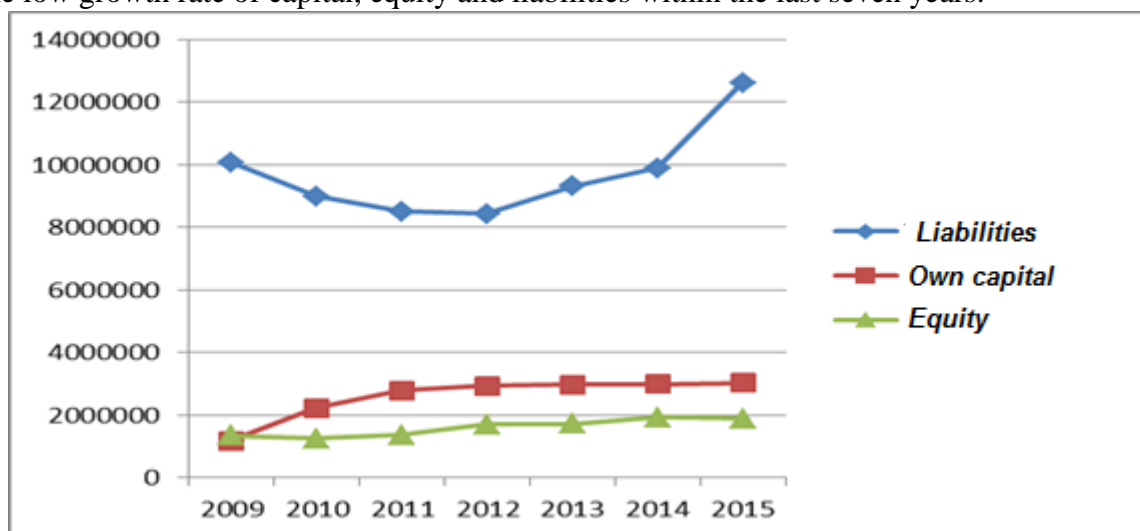


Figure 1. Dynamics of volumes of capital, equity capital and liabilities of banks- legal entities in western region of Ukraine during 2009-2015 years, thousand. UAH.

The development of the credit market of the Western region over the past two years was characterized by the growth in lending both in corporate business and households to 742225 thousand UAH and 342267 thousand UAH respectively (Table 4). Be noted that only PJSC "VS Bank" and PJSC "Idea Bank" demonstrated a reduction of corporate lending in 2015 compared to 2014 and provided loans mainly to individuals. The leader among corporate financing business in the Western region is PJSC "Kredobank". At the same time a priority direction of activity of the bank is to provide quality banking products for small and medium business and focus its resources on the real economy.

Table 4  
Characteristics of loans to businesses and individuals by banks of western border regions of Ukraine during 2014-2015 (Beginning of period) [8]

Banks	Loans granted to legal persons, thousand UAH		Loans granted to individuals, thousand UAH		Deviations on loans to legal entities	Deviations on loans to individuals
	on 01.01. 2014 p.	on 01.01. 2015 p.	on 01.01. 2014 p.	on 01.01. 2015 p.		
VS Bank	1214537	1202116	385499	443646	-12421	58147
Idea Bank	80996	39340	2166620	2167900	41655	1280
KomInvest Bank	426729	567934	76536	81843	141205	5307
Kredobank	1480094	1860681	894374	1153089	380586	258715
Lviv	558178	743996	68426	79469	185819	11043
Oksi bank	230481	319172	37691	45466	88691	7775
Total	3991015	4733240	3629145	3971413	742225	342267

\* Compiled by the author based on the data from the official site of National Bank of Ukraine.

Great importance for the development of the Western Region will have the creation of communal bank, characteristic feature of operation of which is an opportunity for local authorities directly affect regional development through the control and regulation of accumulation, distribution and redistribution of bank cash resources to fund economic and social programs at the meso level. The main areas of communal bank functioning are servicing of budgetary resources flows of the region; financing budgetary enterprises, institutions and organizations; accumulation of funds for investments in priority regional development programs; raising capital, including foreign, to finance the local economy, etc. [9, p. 139].

Constructive element of banking infrastructure western border regions of Ukraine should be a network of cooperative banks created to service agricultural producers and stimulating the development of regional economy. Creation of system of co-operative banks will concentrate financial resources of the rural population, targeted government funding, loans from commercial banks, which will help manage cash assets more efficiently and consider the needs of the industry. Consequence of this should be a sustainable financing of the agricultural sector and rapid response to their needs, and credit cost reduction for agricultural producers [9, p. 140].

### **Conclusions.** Results of the research gave grounds following conclusions:

1. The results of analysis of the current situation of the banking system of Ukraine shows that it is largely centralized, as most banks-legal entities are located in the city of Kiev, although this is not financially justified.

2. The banking sector in the western border regions of Ukraine should increase the scale of its activities. At the same time should increase the impact of its operation in the economy that will be displayed in ensuring production growth, increasing prosperity and improving living standards. In this regard the participation of banks in the implementation of priority regional and national projects in the country should be important.

3. The situation that has formed, demands the formation and development strategy of regional network of banks in Ukraine. Such a strategy should include: reforming the existing legal framework for banking activities; analysis of the needs of individual regions in the banking and the development of regional programs for the banking sector; ensuring free competition and transparency in the banking system; stimulating transformation processes among banks (consolidation, reorganization, reorientation); forming a positive public attitude to local banks, including cooperative.

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