

THE ROLE OF THE STATE BUDGET IN ENSURING THE DEFENSE CAPABILITY OF UKRAINE

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INTRODUCTION

The state budget is a reflection of the socio-economic, political life of society and of each citizen in particular. Through the budget, the state demonstrates the scale of its functions, the available financial potential and its role in regulating socio-economic processes.

As an important link of the financial system, the state budget reflects the monetary relations that arise between the state and economic entities of various forms of ownership, individuals regarding the formation of a centralized fund of state financial resources with the aim of providing the population with public goods and services, improving the quality and standard of living of the population, a continuous process of extended reproduction.

However, in the conditions of martial law, the country's priorities change and the issues of ensuring the country's defense capability, providing humanitarian aid, forming support funds for internally displaced persons, financing the relocation of industrial enterprises, small and medium-sized businesses to safer places (*into the territory and away from the zone of active hostilities*), etc.

The large-scale invasion of Russia on the territory of Ukraine on February 24, 2022 forced the Ukrainian government to urgently review the state policy in various spheres of the economy, in order not only to preserve the territorial integrity of the state, to prevent the loss of sovereignty, but also to review and adjust the financial and budgetary policy, which, of course, was not oriented to war. In such conditions, there was a need to revise the budget indicators, both in terms of income and expenditure. Since the needs of the security sector and the Armed Forces of Ukraine have increased dramatically, it was also necessary to continue making social payments: pensions and other payments to the population. A number of domestic enterprises stopped their economic activity due to missile attacks, which negatively affected the formation of the appropriate amount of revenues and, accordingly, budget expenditures.

In the conditions of martial law, the functions of the state budget differ significantly from the conditions of peacetime, and therefore this issue requires special attention from not only politicians, practitioners, but also

scientists regarding the analysis of the sources of the formation of budget revenues, rational distribution and effective use of funds for priority needs, including ensuring the country's defense capability. This determines the relevance of this study.

The issue of the state budget is investigated by a number of domestic and foreign scientists, in particular, Yu. Pasichnyk, V. Fedosov, V. Oparin, V. Shalimov, P. Izhevsky and others. However, in the conditions of martial law, these issues have not been investigated enough, which forces scientists to carry out thorough, scientific searches taking into account the specified specifics.

Taking into account the above, the purpose of the study is to determine the role of the state budget in ensuring Ukraine's defense capability in 2022.

1. The genesis of the essence of the state budget and its development in modern conditions

An important role in the formation and development of the economic structure is played by state regulation carried out by the state in the form of the government within the framework of the implementation of the relevant economic policy. With the help of the financial mechanism, the main link of which is the state budget, the socio-economic processes of the country are regulated in order to ensure sustainable dynamics of development and increase the level of social standards.

The state budget, as a means of unifying the mobilization and use of the state's financial resources, enables the government to perform the functions of the state, stimulate economic priorities, ensure social protection of the population, carry out structural restructuring of the economy, etc.

The revenues of the state budget are a part of the centralized financial resources of the state, which are regulated by relevant normative acts and are necessary for the performance of its functions. Budget revenues reflect the state's economic relations with enterprises, institutions, organizations, and individuals, which arise in the process of collecting budget payments¹. Thus, state budget revenues are the main resource that ensures the performance of state functions.

Tax revenues are an important source of filling the revenue part of the budget and, accordingly, the volume of state finances. It follows from this that the state budget of Ukraine is the main fund of centralized monetary resources, which reflects the state of economic relations of the state in the distribution

¹ Пасічник Ю. В. Бюджетна система України та зарубіжних країн : навч. посіб. 2-ге вид., перероб. і доп. Київ : Знання – Прес, 2003. С. 362.

and redistribution of GDP. Instead, business entities, namely business structures of state and communal ownership are the main source of filling budgets of all levels.

The state uses finances to regulate the socio-economic development of the country. Creates conditions for ensuring human and citizen rights, compliance with guarantees of social protection, national security, appropriate level of environmental protection, cultural development, international representation. Achieving these goals is achieved through the use of tools, methods, methods and levers for the state's mobilization of financial resources, their distribution, effective use and systematic management of the country's socio-economic development. The mechanism of financial management in the state includes a system of financial instruments, methods and levers. The dynamics and pace of the socio-economic development of the country, the improvement of the level and quality of life of the population depends on the level of perfection and effectiveness of the financial mechanism.

The state, using such a tool as the state budget, defends the interests of society, both within the country and abroad. It protects domestic manufacturers from raiding and unfair competition, prevents the entry of low-quality products into the domestic market, and stimulates innovative investment and socio-economic development.

In the economic literature, the issue of the state budget is justified by an objective factor generated by the very existence of the state. After all, without the state budget there can be no question of the existence of the state as a social institution. Because the budget is a tool for consolidating multifaceted socio-economic, environmental and other contradictions, current problems that have accumulated or constantly arise in society and require an urgent solution at the appropriate stage of its formation and/or evolutionary development.

In the conditions of a market economy, the state budget is the main instrument for regulating socio-economic phenomena and processes occurring in the state.

Thus, in accordance with the provisions of the Budget Code of Ukraine (Article 2), the budget is a plan for the formation and use of financial resources to ensure tasks and functions, which are carried out respectively by state authorities, authorities of the Autonomous Republic of Crimea, and local self-government bodies during the budget period².

Economic agents, i.e. business entities of the country take an active part in creating and increasing the gross domestic product (GDP). The income generated in the sphere of material production (spiritual, physical) is

² Бюджетний кодекс України від 08.07.2010 № 2456-VI. URL: <https://zakon.rada.gov.ua/laws/show/2456-17#Text>

successively transferred to the stage of distribution and redistribution. An important role in this distribution/redistribution of GDP is played by the budget, as a significant part of the income materializes and enters the budget in monetary form and creates a centralized fund of financial resources. Revenues to the budget depend directly proportionally on the state of economic development, the efficiency of the functioning of the entire national economic complex. Even the ability of the state to perform its functions depends on the level of mobilization of funds to the budget. Thus, the budget, as an economic category, is a set of economic relations related to the creation, distribution and use of the state centralized fund of financial resources. The centralization of funds to the budget is important not only socio-economically, but also politically, since accumulated revenues are one of the factors in the implementation of measures planned by the state and important national programs. This gives the government the opportunity to maneuver financial resources, to concentrate them on strategic programs, priority areas and directions of socio-economic development of the country, to implement a relevant, unified and integrated financial, budgetary and economic policy of the state.

The state budget, as a carrier of the economic form of the existence of objective, real, conditioned distributional relations, is considered by scientists in economic science as a separate, independent economic category, as a part of finance. At the same time, it is noted that it has its own specific features, which are related to a specific form of redistributive relations with the separation of part of the income from GDP to the state to meet public needs and ensure the process of constant expanded reproduction.

According to V. M. Fedosov and V. M. Oparin, the budget is a fund of financial resources that is at the disposal of executive authorities of a certain level and is used to perform the functions assigned to them, provided for by the Constitution³.

By its content, the budget is a complex category and in the theory of public finance it is considered in three aspects: first, as a legal act, according to which executive authorities dispose of funds of monetary resources; secondly, as a plan of expenditures and revenues of the relevant authority; thirdly, as an economic category, since the state budget reflects monetary relations regarding the formation, distribution and use of centralized and decentralized monetary funds⁴.

³ Федосов В., Опарін В., Сафонова Л. та ін. Бюджетний менеджмент : підручник / за заг. ред. В. Федосова. Київ : Вид-во КНЕУ, 2004. С. 17; 42–47.

⁴ Шалімов В. В., Яворська М. І. Сутність державного бюджету та його вплив на соціально-економічний розвиток. *Наукові записки*. 2013. Вип. 13. С. 224–228.

Through the prism of the economic category, the budget performs distributive (redistributive), *regulatory* and *control* functions. The distribution (redistribution) function is manifested in the mobilization of funds and their direction to public needs. Through this function, all participants of social production enter into budgetary relations. On the other hand, the *control* function makes it possible to monitor the completeness and timeliness of receipts, to point out existing shortcomings, proportions in the distribution and efficiency of the use of budget expenditures. The regulatory function is manifested in the application of the combined financial instruments of state regulation of various aspects of financial and economic development, based on the legal aspects of monetary relations, in particular taxes.

The state budget plays an important role in ensuring the stability and efficiency of the country's financial system. The financial basis of the effectiveness of the functioning of state authorities and local self-government is the budget, its essence is manifested in those social relations related to the accumulation and use of budget funds.

The annual budget in Ukraine and some other countries is approved in the form of a law, but there is another international practice. Thus, in Finland and Norway, the budget is approved by a special parliamentary resolution, and in the USA – in the form of a concurring resolution of both houses of Congress and at the same time does not have binding legal force⁵.

Usually, in Western European countries, the budget is understood as a legislative act that approves the legalization of the list of income and expenses as a form of financial document. It is the legislative power that gives the budget the force of law through the process of decision-making according to democratic procedures. This feature of adopting the budget and obtaining the legislative power of the financial document provides the budget with appropriate conditions for the use of budget expenditures, strengthening the influence on the efficiency of public production and control over the use of budget funds. With the help of the budget, the state creates comfortable conditions for the development of business and the proper life of citizens.

The state uses the budget as a tool for the implementation of its own socio-economic, environmental and other state policies, as well as all the activities that are carried out in the country on behalf of the state.

The complete mobilization of financial resources to the budget and the efficiency of the distribution and use of financial resources is an important component of financial independence, independence, sovereignty, and on the other hand, a guarantor of the complete performance of state functions.

⁵ Іжевський П. Г., Кошонько О. В. Фінанси : навч. посіб. Львів : «Магнолія 2006», 2013. С. 134.

The state regulates socio-economic processes by means of direct or indirect influence, financing state-wide programs, investment projects, including through lending to objects, industries, subsidizing enterprises and organizations with the help of budget funds, while achieving significant changes in national economic proportions. The effectiveness of state intervention in the economy and regulation of socio-economic processes depends on a qualitative analysis of the situation, proper study of the reproductive process and the use of more effective, modern, improved methods and methods of budget financing.

The role of the state budget of Ukraine in the financial system can be different. According to some researchers, it does not always depend on the specific weight of budget allocations as part of the funding source. For Ukraine, when transitioning to market relations, the seemingly paradoxical task of increasing the role of the budget by reducing its importance is quite relevant. This concerns, first of all, the replacement of its passive role with a significant share of the active influence of budget allocations on various aspects of socio-economic development⁶.

According to Vasylyk O.D., the role of the budget in regulating social processes in the state ultimately boils down to how and to whom the results of financial stabilization will serve – the real deepening of the property differentiation of the population or to a greater extent the formation of an even distribution of incomes, the formation of the middle class, which is guarantee of stability in the state⁷.

A significant share of the distribution and redistribution of GDP is ensured through the state budget, and this indicator is different in each country. The state centralizes a part of the GDP through the budget to perform the functions assigned to it. The level of centralization of GDP determines the financial model of society and is high, as for example in the Scandinavian countries (50-60%), medium as in Western European countries (35-45%) or as in the American model (25-30%). The level of centralization of GDP, due to the growth of state functions and the need to allocate a significant share of GDP to aggregate consumption, thus increases the influence of the state on socio-economic development and related economic relations.

The economic essence of the budget consists in the distribution and redistribution of the gross domestic product among the sectors of the economy, population strata and territories in order to increase the efficiency of the economy and the well-being of citizens. With its help, the state provides society with goods and services that significantly affect the level of well-being

⁶ Захожай В. Б., Захожай К. В. Роль і місце Державного бюджету України в фінансовій системі держави. URL: <https://core.ac.uk/download/pdf/84323144.pdf>

⁷ Василик О. Д. Теорія фінансів : підручник. Київ : НІОС, 2003. 416 с.

and quality of life. Such goods include the defense of the country, national security and law and order, landscaping, environmental protection, education, health care, science, culture, etc.⁸.

The state budget affects the deployment of productive forces as a means of territorial or inter-sectoral redistribution of financial resources, stimulation of economic growth, support of certain industries. Not so long ago, the government of Ukraine supported aircraft construction, the coal industry, etc. with the help of budgetary resources.

Budget expenditures are an effective instrument of state regulation of socio-economic processes in the country, which exerts a sufficiently significant influence both on the development of individual industries and the economy as a whole⁹.

The level of defense spending is one of the most important criteria that characterizes the state's desire to ensure the necessary conditions for the development of the armed forces and other military formations, maintaining their combat readiness in a proper state¹⁰.

According to Vasylyk O. D., state expenditures to some extent have a positive effect on the growth rate of the economy, but in fact, it is not their volume that is important, but the functional structure, which clearly determines the directions for the use of budgetary resources and the expected level of their return¹¹.

Budget expenditures make it possible to level the consequences of social stratification of the population, smooth out disparities in the socio-economic development of territories, and fight against a special socio-economic phenomenon – poverty.

Through the mechanism of budgetary and tax policy, the state budget acts as a tool for stimulating the economy, improving production efficiency, regulating investment activities, etc.

The budgetary mechanism is a set of means used by the state to organize budgetary relations and ensure proper conditions for economic and social development¹².

⁸ Старостенко Г. Г., Булгаков Ю. В. Бюджетна система : навч. посіб. Київ : Центр навчальної літератури, 2006. С. 74.

⁹ Самошкіна О. А. Бюджетні видатки як інструмент економічного зростання. *Агросвіт*. 2018. № 21. С. 50–56.

¹⁰ Романовська Ю. А., Урбанович В. А. Видатки на оборону: порівняльний аналіз ситуації в Україні та країнах НАТО. *Причорноморські економічні студії*. 2018. Випуск 28-2. С. 117–120.

¹¹ Василик О. Д. Теорія фінансів : підручник. Київ : НІОС, 2003. С. 166.

¹² Алексєєв І. В., Ярошевич Н. Б., Чушак-Голобородько А. М. Бюджетна система : навчальний посібник. Київ : «Хай-Тек Прес», 2007. С. 17–18.

The functions of the state budget are carried out on the basis of the use of the budget mechanism, which is a real embodiment of the budget policy implemented by the government and reflects the specific targeting of budget relations to solve current, socio-economic and other important tasks of the state.

The budget is not only one of the fundamental categories of finance, but also an important social phenomenon that reflects the nature of the relationship between the state and society¹³.

2. Formation and execution of the State Budget of Ukraine in 2022

Along with socio-economic tasks, the state, with the help of the budget, solves a number of classic administrative contradictions, including those related to the need to protect the country.

Russia's armed aggression against Ukraine, which began on February 24, 2022, proved the importance, in the conditions of war, of maintaining the stability of state finances, the stability of the country's financial system, the constant dynamics of budget revenues and the important role of the state budget as a tool for ensuring, including, the country's defense capability.

The analysis of the implementation of the State Budget of Ukraine showed that in 2022 the government accumulated UAH 1,787.7 billion, i.e. UAH 490.8 billion, or 37.8 percent more than in 2021 (Table 1). Grants from international partners (the International Monetary Fund, the European Union, and individual countries) accounted for 481.1 billion UAH of the specified amount, which accounted for 26.9% of all revenues. Among the largest items of income, it is worth noting: *VAT on goods imported into the customs territory of Ukraine – UAH 253.1 billion or 66.5% to the growth rate of 2021; own revenues of budgetary institutions – UAH 235.2 billion (266.1% to the growth rate of 2021); VAT on goods (works, services) produced in Ukraine, taking into account budget compensation – UAH 213.9 billion (137.3% to the growth rate of 2021), etc.*

The level of implementation of the revenue part of the state budget was negatively affected by:

- the suspension of foreign economic operations across sections of the Ukrainian-Russian and Ukrainian-Belarusian borders, including transit, a complete suspension of air transport and the blocking of seaports, which, according to the State Committee of Statistics, resulted in a decrease in the volume of imports and exports of goods by 24.1 and 35.1% compared to 2021;
- large-scale population migration both within and outside of Ukraine;
- a significant drop in the economy and business activity of taxpayers;
- destruction of plants, factories, other infrastructural and energy facilities, etc.

¹³ Савчук Н. В. Бюджетні пріоритети України у контексті суспільного вибору : монографія. Київ : КНЕУ, 2014. С. 292.

Table 1

Revenues of the State Budget of Ukraine in 2022

Articles of income	Fact, billion UAH	Growth rate until 2021, %
TOTAL INCOME	1787,7	137,8
<i>including:</i>		
Personal income tax and levy	148,4	107,9
Corporate income tax	117,0	79,2
Rent for the use of subsoil of national importance	81,0	107,2
Excise tax on excise goods (products)	60,7	73,3
Excise tax on excise goods (products) imported into the customs territory of Ukraine	41,7	52,3
VAT on goods (works, services) produced in Ukraine, taking into account budget compensation	213,9	137,3
Budgetary VAT reimbursement	-84,6	53,0
VAT on goods imported into the customs territory of Ukraine	253,1	66,5
Import duty	23,3	63,3
Part of the net profit (income) of state or municipal unitary enterprises and their associations, which is allocated to the relevant budget, and dividends (income) accrued on the shares (parts) of economic companies, the authorized capital of which includes state or municipal property	46,9	164,4
Funds transferred by the National Bank of Ukraine in accordance with the Law of Ukraine "On the National Bank of Ukraine"	18,8	76,9
Own revenues of budgetary institutions	235,2	266,1
Official transfers from the European Union, foreign governments, international organizations, donor institutions	481,1	-

Source: built by the author based on data¹⁴

¹⁴ Інформація Міністерства фінансів України про виконання Державного бюджету України за 2022 рік. URL: https://mof.gov.ua/uk/budget_2022-538 С.8

The state budget deficit in March 2022 was 80.6 billion UAH, in May – 113.4 billion, and in June – 134.9 billion UAH. According to the results of 2022, the deficit exceeded 911 billion UAH (17.6% of GDP against the plan of 31.7% of GDP). Such a state caused a significant increase in the value of the fiscal space, in particular taxes and fees in filling the budget.

To cover the monthly deficit of the State Budget of Ukraine, the government needs 5 billion \$US. Thus, in May 2022, the practice of using finances from military bonds and resources of the National Bank of Ukraine with the additional involvement of loans from international financial organizations, as well as bilateral loans and grants, was effective¹⁵.

To increase the revenue part of the budget, the government resorted to unpopular measures and asked the National Bank of Ukraine and other state-owned enterprises to transfer 2021 profits to the budget ahead of time. This ensured the implementation of the March budget revenue plan by 93% due to the receipt of UAH 19 billion from the National Bank of Ukraine, UAH 28 billion from Privatbank and UAH 2.3 billion from Naftogaz. In general, state enterprises transferred UAH 32.5 billion in dividends in March¹⁶. Such a step helped maintain the stability of the state finance system and the financial system in general, gave confidence to all participants in the budget process and creditors that the situation is under control and the government is doing everything possible to avoid a collapse. At the same time, the unpopularity of these measures is explained by the fact that these funds, according to the plan, were supposed to reach the budget in April-June. Instead, the accelerated receipt of these payments only confirmed the difficult situation with filling the budget in the following months. Therefore, only external borrowing could correct the situation in the conditions of unpredictable growth of the budget deficit and the lack of internal sources of filling the treasury.

In this regard, the Minister of Finance of Ukraine S. Marchenko noted that the main challenge facing the country's financial system was a significant increase in defense expenditures and, at the same time, a significant decrease in tax revenues due to the war. Therefore, without the financial support of international partners, Russia's war against Ukraine will last longer and cause greater economic losses¹⁷.

¹⁵ Неізвестна О. В., Григурок А. А., Литвин Л. М. Сучасні інструменти підтримки фінансової стійкості України в умовах воєнного стану. *Економіка та суспільство*. 2022. Випуск 39. URL: <http://dspace.tnpu.edu.ua/bitstream/123456789/26285/1/ertyui.pdf>

¹⁶ Вінокуров Я. Що з державними фінансами та чи вистачить Україні грошей. Роз'яснення (від 5 квітня 2022 р.). *Економічна правда*. 2022. URL: <https://www.epravda.com.ua/publications/2022/04/5/685230/>

¹⁷ Марченко С. для Wall Street Journal: Підтримка міжнародних партнерів пришвидшує перемогу України. URL: <https://www.kmu.gov.ua/news/serhii-marchenko-dlia-wall-street-journal-pidtrymka-mizhnarodnykh-partneriv-pryshvydshue-peremohu-ukrainy>

International support made it possible to keep the situation under control for the smooth functioning of the state finance system and the financial system of Ukraine, to ensure financing of important military, economic, social tasks, and critical expenditures.

In our opinion, effective ways of finding additional reserves are the review of lease agreements for the use of real estate, land, increasing tax rates on luxury items and the use of subsoil, other natural, economic, and recreational resources in each region of the country; creation of new jobs, including through the relocation of enterprises and the involvement of the labor potential of internally displaced persons, the introduction of a tourist tax, an increase in car parking fees, military duty, etc.¹⁸.

In the conditions of martial law and the difficult financial and economic situation in Ukraine, the government took priority measures to reorient the country's budget to military purposes and implement the most necessary social, humanitarian, and critical expenditures aimed at supporting the livelihood of the population, the relocation of enterprises, and the support of internally displaced persons, as well as ensuring the operation of critical infrastructure facilities. In 2022, compared to 2021, state budget expenditures by functional classification increased by UAH 1,214.2 billion, or by 81.4 percent (Table 2).

The information given in Table 2 by functional classification reflects the state's performance of its functions, for example, economic – due to spending on economic activity, social – on the protection of the population, cultural sphere, management activity, defense and security of the country, etc. These expenditures are a reflection of the country's priorities in 2022.

Thus, in 2022 cash expenditures of the general fund of the state budget were made in the amount of UAH 2,411.1 billion, which is more than in 2021 by UAH 1,151.2 billion, or 1.9 times. The level of implementation of the list of expenditures of the general fund was 92.3 percent (-202.1 billion UAH). The main reasons for the non-fulfillment of the planned indicators of expenditures of the general fund of the state budget were the financing of social expenditures in accordance with registered obligations, savings on expenditures for servicing the state debt, as well as delays of the relevant chief managers in preparing and approving the documents necessary for spending (including expenditures, related to ensuring the national security and defense of the country).

¹⁸ Радіонов Ю. Д. Управління фінансовими ресурсами держави в умовах воєнного стану. *Економіка України*. 2023. № 1. С. 20–43. DOI: <https://doi.org/10.15407/economyukr.2023.01.020>

Table 2

**Expenditures of the State Budget of Ukraine in 2022
by functional classification**

Articles of expenditure	Fact, billion UAH	Growth rate until 2021, %
Total expenses, including:	2705,7	181,4
All-state functions (excluding expenses for servicing the state debt and payments on state derivatives)	44,1	86,4
Debt servicing and payments on government derivatives	157,9	101,4
Defense	1143,2	896,4
Public order, security and judiciary	443,3	254,2
Economic activity	95,4	52,6
Protection of the natural environment	4,7	57,5
Utilities	0,5	322,2
Health care	184,3	107,7
Spiritual and physical development	11,1	69,2
Education	58,5	91,6
Social protection and social security	426,0	125,6
Interbudgetary transfers	136,8	67,5

Source: built by the author based on data¹⁹

The large-scale invasion of russia on the territory of Ukraine and the subsequent conduct of hostilities on our territory led to a significant increase in expenses for meeting the needs of the security and defense sector bodies, related to the need to ensure the country's defense capability. In 2022, as can be seen from Table 2, 42.2% (1143.2 billion UAH) of all budget expenditures will be directed to defense alone. And, together, the total financial resources

¹⁹ Інформація Міністерства фінансів України про виконання Державного бюджету України за 2022 рік. URL: https://mof.gov.ua/uk/budget_2022-538

in the amount of UAH 1,537.5 billion (31.2% of GDP) are directed to the national security and defense of the state, which is UAH 1,271.9 billion more than in 2021.

According to the Ministry of Finance of Ukraine, UAH 1,335.8 billion was allocated from the general fund of the state budget, in particular, to the following main areas:

- financial support of military personnel, members of the rank and file, police officers and wages of employees;
- (with accruals) of security and defense sector bodies in the amount of UAH 889.9 billion;
- purchase, maintenance, repair of military products, military equipment, weapons, ammunition, defense products in the amount of UAH 202.3 billion;
- purchase of necessary materials, equipment and inventory (fuel and lubricants, spare parts for vehicles), personal protective equipment (helmets, body armor and other equipment), etc. in the amount of UAH 73.6 billion;
- purchase of food products (food services) for military personnel, rank and file officers, policemen in the amount of UAH 30.9 billion;
- purchase of vehicles, cars, equipment and other items of long-term use in the amount of 19.1 billion hryvnias²⁰.

As we can see, since the beginning of the war, the financial policy of the state has changed significantly, because almost the entire financial potential of the budget was focused on the goals of military needs. Financial resources have been redirected to priority areas, in accordance with the provisions of the Resolution of the Cabinet of Ministers of Ukraine dated 09.06.2021 No. 590 "On approval of the Procedure for the exercise of powers by the State Treasury Service in a special regime under martial law"²¹. In the first place, expenditures are made for national security and defense and for the implementation of measures of the legal regime of martial law, equipment of workplaces for the performance of functional duties by the operative composition of control points in possible places of deployment of the Headquarters of the Supreme Commander, material and technical, transport, social and household and other support for the activities of the President of Ukraine, the National Security and Defense Council of Ukraine, the Office of the President of Ukraine.

²⁰ Інформація Міністерства фінансів України про виконання Державного бюджету України за 2022 рік. URL: https://mof.gov.ua/uk/budget_2022-538

²¹ Постанова Кабінету Міністрів України від 09.06.2021 № 590 «Про затвердження Порядку виконання повноважень Державною казначейською службою в особливому режимі в умовах воєнного стану». URL: <https://zakon.rada.gov.ua/laws/show/590-2021-%D0%BF#Text>

Some researchers, emphasizing the importance of the state budget, propose to distinguish it according to: *economic, political, social* significance. Thus, the economic significance lies in the state's ability to influence the course of economic and social processes in the state through the mobilization of financial resources and their distribution. The political significance of the budget lies in the fact that it is approved by the legislative body, which includes representatives elected by the people – people's deputies; thus the will of the people is realized. The social significance lies in the fact that with the help of the budget, issues of a social nature are solved – through the budget, science, culture, sports, health care, education, provision and maintenance of pensioners and disabled people, etc. are financed²². In our opinion, the above budget values are incomplete.

On this occasion, Oparin V.M. notes that the budget simultaneously implements "different functions related to the redistribution of GDP, in particular the provision of general societal needs (state administration, national defense, judiciary and law and order, international relations) and the implementation of economic (between individual industries and regions) and of social (between individual strata of the population) redistribution"²³. That is, the author included national defense among the general societal needs. In our opinion, it would be quite appropriate to single out separately the functions of the budget for ensuring the defense capability of the country. Since, our research has established the important role of the budget, especially in the conditions of martial law, in ensuring the defense capability of the country, which convincingly demonstrates its military context. And, those previous studies that were conducted mainly related to peacetime conditions. In addition, the military factor is extremely unifying and concerns various aspects (*humanitarian, financial, defense*), as it concerns not only the military, but also the protection and support of the civilian population in wartime, therefore it is fully justified and ripe, in our opinion, the concept of allocating the state budget on a *military* basis. The latter, in our opinion, is that under martial law, the needs of the entire security and defense sector are financed from the budget, namely: material and resource support of the Armed Forces of Ukraine, territorial defense (TrD), formation of the army mobilization reserve, provision of humanitarian assistance, formation of support funds for internally displaced persons, financing of relocation of enterprises to safe places, etc. That is, the state budget actually finances the implementation of

²² Даньків В. Й., Галас М.І. Роль бюджету у соціально-економічному розвитку держави. URL: <https://dspace.uzhnu.edu.ua/jspui/handle/lib/2082>

²³ Опарін В. М. Фінансова система України (теоретико-методологічні аспекти) : монографія. Київ : КНЕУ, 2005. С. 180.

all those tasks that are related to the appropriate response of the state to the challenges and threats of war, which gives us grounds to reasonably distinguish the state budget by: *economic, political, social and military* significance. Since the state budget of 2022 is actually a budget for ensuring the defense of the country, strengthening the security sector and supporting the population in difficult conditions of martial law.

In our opinion, while the war continues, it is necessary to continue to increase the amount of budget expenditures to strengthen the military potential of the Armed Forces of Ukraine, territorial defense (TrD), the formation of a powerful mobilization reserve of the army and navy in order to form adequate resources and prerequisites for the liberation of all occupied territories from invaders and establishing a just peace in Ukraine.

The conducted research shows that in the conditions of war, the state budget is one of the important factors of ensuring the defense capability of the country, since the war made significant adjustments to the socio-economic development, and therefore the issues of investment attractiveness, etc., became secondary.

An effective system of managing public finances of the country in the post-war period should reduce the debt burden on the budget, in particular for future generations of Ukrainians²⁴.

A high-quality and effective system of public finance management formed on the basis of the international experience of foreign countries makes it possible to strengthen the fight against inefficient use of budget funds, fraud, and corruption. In addition, a comprehensive approach to the formation of an effective system of public finance management helps to form and strengthen the institutional environment, especially in the financial and budgetary system of the country.

We consider it expedient to create in Ukraine an instrument similar to the European Semester, which operates in EU countries with the aim of strengthening monitoring of the formation and implementation of fiscal, budgetary, economic policy of the state, promoting the broad involvement of the public and other interested parties in the collective discussion of budget requests, plans, development concepts, strategies of socio-economic development of the country, implementation of structural economic reforms²⁵.

The large-scale invasion of Russia proved the need to change the approaches to the formation of the state defense order that existed before the

²⁴ Радіонов Ю. Д. Державні фінанси у воєнний та поствоєнний періоди. *Фінанси України*. 2022. № 10. С. 44–65. DOI: <https://doi.org/10.33763/finukr.2022.10.044>

²⁵ Лупенко Ю. О., Радіонов Ю. Д. Напрями вдосконалення системи управління державними фінансами країни. *Фінанси України*. 2021. № 8. С. 47–67. DOI: <https://doi.org/10.33763/finukr.2021.08.047>

war. And this applies not only to the terms and quality of the execution of previously concluded contracts, but also to the amount of financing. Approaches to the formation of the defense budget must be changed and take into account the entire set of needs of the Ministry of Defense, compliance with the rules and deadlines for submitting budget requests with the aim of timely registration by the State Treasury Service, which will help to better analyze budget expenditures.

The state defense order should be a priority direction of budget expenditures in the medium and long term even after the Victory of Ukraine. Because the neighborhood with an aggressor country will continue to require significant efforts from the government to ensure the country's security, protect its sovereignty and territorial integrity, and become an outpost for the protection of the eastern borders of the European Union.

Even the prospect of Ukraine's accession to NATO will require the strengthening of security guarantees, will require an increase in innovative developments and capital investments in the production of new military equipment, weapons, the formation of a state order to finance the needs of enterprises in the machine-building industry, which will be able to manufacture various components for the defense-industrial complex, etc. Therefore, budget expenditures on defense must be adequate to the challenges that Ukraine faces today and will face in the future.

CONCLUSIONS

The study showed that the management of the country's financial resources, in the conditions of a state of war, is significantly different from the conditions of peacetime. In the conditions of war, the highest specific weight is spent on the army, support of internally displaced persons, relocation of enterprises, payment of pensions, other benefits, and solutions to humanitarian problems. On the other hand, budget revenues decrease due to the termination of entrepreneurial and foreign economic business activities, and therefore the deficit and public debt increase.

We support O. P. Kyrilenko's statement that Ukraine should become a state capable of protecting its borders and ensuring peace not only on its territory, but also in the European region²⁶. For this, it is necessary to increase the amount of state budget expenditures for the support of the army, navy, and the formation of an appropriate mobilization reserve capable of repelling any aggressor. The priority goals of the financial policy for the near term should be the full financing of the Armed Forces of Ukraine and the security and

²⁶ Кириленко О. П. Сучасні тенденції видатків на оборону з Державного бюджету України. *Світ фінансів*. 2019. № 3 (60). С. 179–188.

defense sector in order to achieve a convincing Victory in this war. To ensure effective financing of the defense sector, it is necessary to reform the structure of budget programs, increase financial support through various sources of financing, and establish an effective system of control over expenditures. This approach will increase transparency in the use of defense funds, contribute to the dynamic development of the domestic military-industrial complex, provide an opportunity to provide the Ukrainian army with modern weapons and equipment that will allow to effectively respond to current threats, as well as to qualitatively update the personnel of the Armed Forces of Ukraine.

In the conditions of the war, issues of economic activity took a second place, which is justified. Since the protection of the country is of primary importance, and the revitalization of business activity will hopefully take place immediately after the Victory, the liberation of the occupied territories, when the stage of restoration of Ukraine will come. In addition, we consider it fair and reasonable to distinguish the state budget according to the military aspect, which strengthens its role and significance in the conditions of war for solving current tasks and challenges, and also provides an opportunity to analyze and research the budget in detail in various circumstances of its formation and execution.

SUMMARY

In the conditions of martial law, the functions of the state budget differ significantly from the conditions of peacetime, and therefore this issue requires special attention from not only politicians, practitioners, but also scientists regarding the analysis of the sources of the formation of budget revenues, rational distribution and effective use of funds for priority needs, including ensuring the country's defense capability. The large-scale invasion of russia on the territory of Ukraine on February 24, 2022 forced the Ukrainian government to urgently review the state policy in various spheres of the economy, in order not only to preserve the territorial integrity of the state, to prevent the loss of sovereignty, but also to review and adjust the financial and budgetary policy, which, of course, was not oriented to war. In these conditions, the government faced the need to revise the budget indicators, both in terms of income and expenditure. That is, the country's priorities have changed and the issue of ensuring the country's defense capability, providing humanitarian aid, etc. has come to the fore.

As evidenced by the results of the study, the needs of the security sector and the Armed Forces of Ukraine have increased dramatically. In this situation, the government had to continue making social payments: pensions and other payments to the population. The results of the study showed that the

functions of the state budget are significantly different from peacetime conditions. In the conditions of war, the role of the state budget in ensuring the defense capability of Ukraine is decisive, which gives reasons to single it out by this feature.

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