# DEBT POLICY DURING MARTIAL LAW AND POST-WAR RECONSTRUCTION

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In connection with the full-scale armed aggression of the russian federation against Ukraine, the decree of the President of Ukraine "On the introduction of martial law in Ukraine" dated 24.02.2022 No. 64/2022 introduced martial law in Ukraine, which is currently extended. From the standpoint of debt policy, martial law is always a crisis-generating challenge for the public finance system of any country, and Ukraine is no exception. The conflict, armed aggression, and socio-economic transformations fundamentally transformed the country's debt policy, requiring balanced strategic decisions to ensure financial and economic stability, financial security, and the ability of public finances to cover immediate and strategic needs in war and post-war reconstruction. Thus, since the introduction of martial law, the soviet-centric methods of conducting hostilities on the part of the russian federation have caused an exponential increase in spending on security and defense forces, social needs, primarily of a humanitarian nature, and limited restoration ("patching holes") of critical infrastructure. The exponential growth of expenses against the backdrop of economic stagnation brought the total state and state-guaranteed debt of Ukraine from February 28, 2022 to May 31, 2023 in hryvnia equivalent to a level of more than 68% or up to UAH 4,594 billion, and the ratio of state debt to GDP received a historical maximum – more than 80% [1].

In the structure of the state debt (excluding the guaranteed one), the share of domestic debt, which is primarily represented by obligations to OVDP (Domestic state loan bonds), is about 34%, external debt is about 66% [2]. Most of them (54% [1–2]) are formed from borrowings from international financial organizations such as the International Monetary Fund, the European Bank for Reconstruction and Development, the European Investment Bank, etc. About 30% [1–2] are debts of Ukraine under Eurobonds that have been issued over the past ten years, the remaining 16% [1–2] are financing allocated by Great Britain, Italy, Canada, Germany, a few designated foreign agricultural (Cargill) and financial and credit companies (Deutsche Bank) to cover immediate budgetary needs.

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Considering the rate of receipt of foreign financial aid, the total amount of public debt by the end of this year will reach UAH 6,197 billion [3], which exceeds the sum of the forecasted nominal GDP of Ukraine in 2023. In the coming years, according to IMF estimates [4], in 2024 it will amount to almost 125% of GDP, in 2025 – 139%, and in 2026 it will reach a new historical anti-record of 150% of GDP. In this context, the issue of preserving financial sovereignty comes to the fore, both in the short and long term, taking into account the need to balance the exponential growth of foreign debts and the necessary financial resources for the post-war recovery of Ukraine. In particular, assistance to victims of military aggression, rehabilitation of veterans and assistance to the families of the dead, while stimulating the restoration of human economic activity, the reconstruction of the national economy, the restoration of solvent domestic demand in order to achieve the strategic goal of initially inclusive, and later balanced-sustainable economic growth.

On June 19, 2023, the Government of Ukraine and the National Bank of Ukraine sent a letter of intent to the IMF for the first review of the updated package of economic and financial policy measures of the 4-year program within the framework of the Extended Financing Mechanism, the purpose of which is to restore fiscal and debt stability while simultaneously promoting long-term growth in the context of post-war reconstruction and on Ukraine's path to joining the EU. Guided by the provisions of the specified letter, the Ukrainian side undertook several obligations, in particular:

1) in 2023: balancing between expenditure categories in order to avoid the pressure of non-core expenditures and their priority direction on the needs of the security and defense forces; determine the sources of full financing of any new initiatives that increase current expenditures (through new resources or through compensatory fiscal measures); carry out constant monitoring of obligations and further supervision of budget execution by the main managers of funds; determine the total amount of expenditures close to the level that was foreseen at the time of the adoption of the program, although their composition has changed somewhat; prevent the budget debt from increasing;

2) in the medium-term perspective: expenditure ceilings will continue to take into account the needs of wartime, but with certain changes in orientation towards new priority areas, in particular, they will provide for a social protection network, restoration and reconstruction; in the post-war period, as defense spending is gradually reduced, these resources should be redirected to expenditures related to recovery and reconstruction, as well as to the social security network to meet the post-war needs of society and its vulnerable sections.

In July 2023, the Verkhovna Rada of Ukraine adopted the Law of Ukraine "On Amendments to the Budget Code of Ukraine on Ensuring Budget Policy Predictability and Strengthening Debt Sustainability" dated 27.07.2023 No. 3278-IX [5], which, among other things, provides for the resumption of the preparation of the Budget Declaration as a document of medium-term budget planning and development of the State Debt Management Strategy for the medium-term period. That is, further transparency and openness of debt management will become a necessary condition for the trust of both internal and external creditors. Providing stakeholders with access to information about the state of the state debt, its structure and payment obligations will reduce lending risks and at the same time contribute to attracting better financing conditions during the post-war recovery period.

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