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DEBT POLICY IN THE CONDITIONS OF THE WAR ECONOMY AND POST-WAR RECOVERY

Summary

The study of Ukraine’s debt policy was carried out in the context of global challenges and the need for its purposeful adaptation to the conditions of the war economy and post-war recovery from the consequences of the war. Considerable attention is paid to the evaluation of various strategies of public debt management, as well as to the analysis of factors affecting its form, structure and sustainability. The main focus of the study is concentrated on the analysis of the state debt policy, the determination of its key characteristics and trends, the impact of internal and external shocks determined by global economic crises and political changes with a special emphasis on the period of martial law. The methodological approach is based on a complex analysis combining statistical and econometric methods, comparative analysis of international experience and the use of scientific literature and official reports. An important part of the methodology is the modeling of various scenarios of the development of the situation with the public debt in Ukraine, which makes it possible to assess potential risks and options for future political decisions. The main goal of the study is to determine effective strategies for managing the public debt of Ukraine, which would contribute to the stability of public finances and ensure the economic growth of the country. It was revealed that the key aspects of an effective debt policy are the diversification of funding sources, reducing dependence on external loans and increasing the share of domestic debt. It is also important to develop debt management tools that make it possible to reduce the cost of servicing debt and increase its sustainability. Prospects for further studies in this direction are related to the analysis of international practices and their adaptation to the conditions of Ukraine,

particularly in the context of European integration processes and the search for a balance between economic growth and fiscal risks.

1. Introduction

The relevance of the topic of Ukraine's debt policy is becoming increasingly significant in the context of global economic challenges and domestic political transformations. At the current stage of development of the Ukrainian economy, it is necessary to ensure financial stability and improve the mechanisms of public debt management. This study is relevant due to the use of the latest data and the adaptation of international debt management practices to the conditions of Ukraine, with a special emphasis on the period of martial law.

The purpose of the study is to analyze the impact of debt policy on the country's economic security and develop strategic recommendations to optimize this process. To achieve the goal, the following research tasks are planned:

1) Assess the current state and structure of the public debt of Ukraine;

2) Analyze the international experience of public debt management and the mechanisms of its adaptation to Ukrainian realities;

3) Develop risk assessment models associated with debt obligations.

The study methodology is based on a comprehensive approach that combines statistical analysis, econometric modeling and the use of system analysis methods. This makes it possible not only to identify existing trends, but also to predict possible changes in debt policy, which is key to the formation of effective management strategies.

The logic of the presentation of the material is determined by the sequence from general theoretical principles to practical recommendations. The introductory chapter is dedicated to the overview of the theoretical foundations of debt policy and the analysis of empirical data. The research part is focused on evaluating the influence of external and internal factors on the state of public debt, and the final section offers strategies for optimization with a stable and effective public debt management model. The practical part of the work involves an analysis of debt sustainability issues based on current data and statistics, and it also considers various options for improving financial regulation mechanisms. The conclusions of the section synthesize the main scientific and practical recommendations that will contribute to the further understanding and development of Ukraine's debt policy.

The study is designed to make a significant contribution to the theoretical basis of debt policy and its practical application, ensuring relevance and novelty in the conditions of dynamic changes in the financial world. Special attention is paid to the impact of geopolitical changes on the formation of public debt management strategies with a focus on the period of martial law.

2. The nature of the budget deficit and the basics of public debt management

A budget deficit occurs when government expenditures exceed revenues, which can occur for several reasons, including the need to increase social spending, economic downturns, tax cuts, subsidies, or inefficient administration of taxes, fees, and other revenues. Also, the budget deficit can arise as a response to certain unforeseen events and policies, such as an increase in defense and security spending, as happened in Ukraine, when in connection with the full-scale invasion of the russian federation on the territory of Ukraine, funding for security and defense spending significantly increased, as well as increased expenses for overcoming the consequences of the armed aggression of the russian federation.

The budget deficit is closely related to the public debt. To cover the lack of budget revenues, governments resort to borrowing. Borrowing is one of the options for covering the deficit. This option is considered the least harmful, in other words, an "ecological" way to finance state expenditures. To cover the deficit, the government borrows funds by selling marketable securities, including Treasuries (foreign government debt bonds, domestic government debt bonds) and other inflation-protected securities. Therefore, the public debt is the total sum of all past deficits. For example, if the government runs a deficit of 10 notional units per year for ten years, the public debt will be 100 notional units.

Covering the budget deficit due to the emission of money is recommended to be used in case of an urgent need for "quick" money and when you need to buy time to find a long-term solution for "ecological" balancing of the budget, since the emission has a negative impact on the level of the population's well-being. To correct the deficit of the state budget, the government can reduce certain expenditures or increase income-generating activities.

The amount of the annual budget deficit determines the amount of the state's debt to creditors. Budget deficits can lead to increased borrowing, higher interest payments, and lower reinvestment, which can cause lower revenues in subsequent budget periods.

The IMF Guidelines on Public Expenditure Management [1] in the expenditure component of the budget identify the main questions: whether the result will be within the budget, whether any changes in spending priorities in specific areas have been implemented as planned, and whether there are any what the problems during the implementation of the budget are, for example, the accumulation of arrears on payments.

How to measure deficit and debt? The deficit increases the public debt. If public debt grows faster than GDP, the debt-to-GDP ratio may increase, which in turn may indicate destabilization of the country's economy. In this context, the Maastricht criteria [2] (convergence criteria are based on the economic indicators that the member states of the European Union must meet in order to enter the euro area and which they must continue to respect after joining) recommend that countries keep the public budget deficit at not higher than 3% of GDP, and public debt not to exceed 60% of GDP.

As a candidate for EU membership, Ukraine implemented the following norms into its national legislation:

1) In accordance with the second paragraph of the first part of Article 14 of the Budget Code of Ukraine, the indicator of the deficit of the state budget of Ukraine for each year of the medium-term period cannot exceed 3% of the forecast nominal volume of the GDP of Ukraine for the corresponding year;

2) In accordance with part two of Article 18 of the Budget Code of Ukraine, the total volume of the public debt of Ukraine and the state-guaranteed debt at the end of the budget period cannot exceed 60% of the annual nominal volume of Ukraine's GDP (It is important to note that these provisions do not apply to cases of the introduction of a state of war or emergency in Ukraine or the conduct of an anti-terrorist operation on the territory of Ukraine).

The Government and Parliament of Ukraine in the Budget Declaration, the main document of medium-term budget planning of Ukraine, which defines the principles of budget policy and indicators of the state budget for the medium-term period, lay down for a three-year horizon the corresponding indicators of the deficit of the state budget, indicators of the sources of financing of the state budget, as well as public debt, the state-guaranteed debt and provision of state guarantees.

Deficit and public debt management. Prolonged and excessive deficits can raise concerns about fiscal stability, inflation, and high interest payments on accumulated debt. Countries combat budget deficits by promoting economic growth through fiscal policies, including cuts in public spending and tax increases. Determining the best strategies for which spending to cut and which to increase is often a matter of wide debate.

The growth of subnational debt is mostly the result of an improper system of inter-budget relations in the respective country, for example, vertical or horizontal imbalances or a system of inter-budget transfers without transparent distribution criteria and conducive to making special subjective decisions. In Ukraine, as a result of miscalculations during the implementation of the reform of interbudgetary transfers, local self-government bodies were forced to take medium-term loans in the total amount of UAH 9 billion.

Public debt as a ratio of GDP has risen sharply worldwide during COVID-19 and is expected to remain high, creating an increasing challenge for policymakers, especially as real interest rates rise globally [3]. With the pandemic, default risks have intensified and spread geographically: more and more developing economies have fallen into crisis; almost 60% of low-income countries were in debt distress or at high risk [4]. The World Bank in the study

"Global Economic Prospects" [5] noted that tight global financial conditions and low external demand will inhibit growth in emerging market and developing countries.

Ukraine also did not avoid the need to increase the planned deficit of the state budget: in April 2020, the deficit was increased from 2.2 to 7.5% of the forecast volume of GDP. In fact, in 2020, the state budget was implemented with a deficit of 5.6% of GDP [6]. The increase in the state budget deficit was the result of restrictions aimed at preventing the spread of the coronavirus, as well as measures to stimulate the economy to overcome the negative consequences caused by the pandemic.

According to the Ministry of Economy of Ukraine, in January-February 2021, industrial production decreased by 4.2% ("minus" 3% in 2 months of 2020), agriculture decreased by 6.1% ("plus" 0.1% respectively), the index of construction products decreased by 12.8% (in January-February 2020 – at the level of January-February 2019 (0%)), the drop in output volumes in the transport sector was 7.7% ("minus" 3.8% in January-February 2020).

During 2021, governments around the world borrowed more because of the coronavirus pandemic. According to IMF estimates [7], borrowing among advanced economies averaged 7.5% of GDP in 2021. In the G7 group of advanced economies, borrowing averaged 9.1% of GDP. In Ukraine, according to the results of 2020, the real GDP decreased by 4.0% against the forecast of a decrease by 4.8%, taken into account during the introduction of changes to the state budget. At the same time, the ratio of public debt to GDP at the end of 2020 was 53.9% against 44.3% at the end of 2019 [6].

3. Debt sustainability of Ukraine: pre-war, wartime dimensions and medium-term guidelines

In 2018, the economy of Ukraine continued its gradual growth for the third year in a row after 2014-2015. The GDP of Ukraine accelerated to 3.3% compared to 2017, which is the highest indicator since 2011. Remittances to Ukraine in the first nine months of 2018 increased by 22.7% year-on-year after an overall increase of 23% in 2017 [8].

Ukraine's macroeconomic recovery, which began after 2014–2015 [6], was accompanied by reforms, contributing to the formation of a stable and safe economic environment, and created additional conditions for minimizing the costs of servicing the public debt. The ratio of public and guaranteed debt to GDP decreased for the first time since 2011 compared to the previous year: from 80.9% at the end of 2016 to 71.8% at the end of 2017.

According to estimates of the British Center for Economics and Business Research [9], russian aggression against Ukraine and the russian occupation of Crimea in the period 2014–2020 caused losses to the Ukrainian economy of about USD 280 billion, and the annual price of the conflict was USD 40 billion.

According to CEBR experts, the annexation of Crimea by the russian federation in 2014 led to losses for Ukraine in the amount of up to USD 8.3 billion annually.

Since 2016, the Ministry of Finance of Ukraine has identified the reduction of currency risk as a result of the reduction of the share of public debt in foreign currency due to the gradual restriction of the issuance of government bonds denominated in foreign currency among the goals of public debt management.

Joint teams of the Ukrainian Debt Management Office and the World Bank focused on strengthening the institutional capacity of the debt office, especially in risk management and financing operations. The teams worked to reduce currency risk by increasing the share of bonds in the national currency; refinancing risk management due to an increase in the size and term of hryvnia benchmark bonds; as well as building capacity for international operations through the support of issues in capital markets and relations with investors [10].

For example, during 2020, Ukraine managed to increase the amount of Domestic government bonds issuance in hryvnia (from UAH 231 billion in 2019 to UAH 259 billion in 2020) [6]. The implementation of this goal gave results: the measures introduced by the Ministry of Finance of Ukraine had a positive effect on the ratio of public and guaranteed state debt in the following years. According to the Ministry of Finance of Ukraine [6], the balance gradually approached the optimal value of 60% of the ratio of state and guaranteed debt to GDP. For the first time since 2011, this percentage decreased and began to approach the “safe” value of 60%.

According to the World Bank [11], the ratio of public debt to GDP of Ukraine decreased to 63.2% in 2018. It was predicted that the ratio of public debt to GDP will decrease to 60.1% in 2019, to 57.9% in 2020 [7].

Ukraine’s economy recovered after the COVID-19 pandemic, with annual growth rates reaching 3.4% in 2021. Given this strong recovery, the NBU has already tightened monetary policy in 2021 to keep inflation under control [12].

According to ratings agencies, Ukraine has become a state that has successfully overcome the pandemic-related crisis from the point of view of debt security. On the fiscal side, Ukraine recorded a low budget deficit of 3.6% of GDP in 2021, which is expected to decrease to 3% of GDP in 2022 [6]. At the end of 2021, the Government of Ukraine updated the Medium-term strategy for public debt management for 2021–2024 [13], the goal of which was to optimize the structure of the public debt from the point of view of the ratio of service costs and risks while maintaining an acceptable level of debt load.

In the pre-war period, Ukraine received significant support from international financial organizations. In 2020, a number of preferential financing instruments were approved for Ukraine, in particular the SBA program of the IMF in the amount of USD 5 billion in May 2020 [14] a package of macro-financial assistance in the amount of EUR 1.2 billion, signed with the EU in July 2020. In December 2020, the governments of Ukraine and Germany signed the Agreement on Financial Cooperation [15] (allocation 2012–2019), within which the Government of Ukraine received the opportunity to attract loans for a total amount of up to EUR 214.5 million, aimed at the development of the energy and infrastructure sectors and support of entrepreneurship in Ukraine, and as well as grants in the total amount of EUR 38.9 million, aimed, in particular, at financing projects in the field of education and development of local self-government.

The financial support of Ukraine from the IMF was caused by the implementation of various reforms in the country. Negotiations with the IMF mission, which lasted from the end of December 2020 to February 12, 2021, focused on strengthening the governance of the central bank, improving the legal and regulatory framework for banking supervision and rehabilitation, policies to reduce the medium-term fiscal deficit, legislation to restore and strengthen the anti-corruption system and judiciary, as well as on energy policy [16].

The Ministry of Finance of Ukraine [6] planned to further expand cooperation with IMF and establish bilateral partnerships similar to partnerships with Japan, Canada, Germany, France, and the USA. It was intended to pay great attention to attracting funds from these institutions for the implementation of investment projects aimed at the development of key sectors of the national economy, which is especially important during global crises, in particular the crisis caused by the negative impact of the COVID-19 pandemic.

At the end of 2021, the external public debt of Ukraine amounted to about USD 57 billion (more than a quarter of GDP), of which USD 13.4 billion – debt to the IMF, USD 6.5 billion – for bilateral official loans and USD 22.7 billion for Eurobonds. Ukraine continued to service its public debt on time. The government has maintained that this is a signal that it remains highly functional and in control of its finances [17].

The russian attack on Ukraine is causing tremendous human suffering and destruction. The impact on global commodity markets has been acute, as oil and wheat prices have risen sharply, and volatility has increased markedly. The broader economic implications are only beginning to be understood [18]. The russian invasion of Ukraine continues to have a serious impact on human and physical capital, as well as on the environment, causing loss of life, reduced living standards and increased poverty, as well as damaging infrastructure.

According to the Ministry of Finance of Ukraine [19], a full-scale russian invasion in 2022 led to a drop in the nominal GDP of Ukraine to USD 161 billion and increasing the ratio of Ukraine’s public debt to GDP to

71.6% from 43.3% in 2021. Ukraine's public and state-guaranteed debt increased by USD 13.4 billion in 2022 to 78.5% of GDP by the end of the year, against 48.9% in 2021.

Since the beginning of the full-scale invasion of the russian federation on the territory of Ukraine, our country has faced panic selling in the market due to fear and uncertainty caused by the invasion, which significantly affected the yield curve [12]. In particular, the yield on Ukraine's currency bonds increased to a level that limited Ukraine's access to international capital markets. Ukraine still has an internal market, in particular domestic financial institutions, external support from donors.

The war caused uncertainty in the government's cash flow. Ukraine has lost visibility from a cash management perspective, as pre-war estimates have become irrelevant. It was necessary to consider the impact of the war on the revenues and expenditures of the budget. Borrowing needs related to military expenditures became the main issue. Ukraine also had to rely on the central bank as a lender of last resort. The government of Ukraine continued social spending in full, thereby increasing the liquidity of the banking system. As a result, bank deposits increased, which helped support demand for government bonds [12].

Ukraine exchanged all but USD 80 million from USD 2.7 billion of new IMF emergency reserves, which it received in August 2021. Debt experts have signaled that our country will probably need an urgent debt write-off in 2022. Ukraine has turned to its international creditors, including Western countries and the world's largest investment companies, with a request to freeze debt payments for two years, so that it could focus its dwindling financial resources on repelling the russian federation [20]. International partners responded to this appeal and took a number of measures. The possibility of writing off Ukraine's debts is analyzed in the next section of the study.

In 2022, the deficit of the State Budget of Ukraine amounted to UAH 911.1 billion, of which the general fund – UAH 909.5 billion, with a planned deficit of the general fund for 2022 in the amount of UAH 1,399.5 billion. The budget amounted to UAH 99.0 billion, the deficit of the general fund – UAH 101.3 billion. Actual state borrowings to the general fund of the State Budget in 2022 amounted to UAH 1,261.1 billion. UAH 666.9 billion, of which USD 2.1 billion and EUR 980.6 million, were raised to finance the state budget from the placement of Domestic government bonds. At the same time, UAH 597.2 billion was raised through the issuance of government bonds, in particular, UAH 400.0 billion was purchased by the National Bank of Ukraine. Repayment of the public debt in 2022 amounted to UAH 448.6 billion, debt service payments – UAH 156.5 billion [21].

In the State Budget of Ukraine for 2023 [22], for the first time in the history of independence, Ukraine approved a budget deficit exceeding 20% of GDP:

in 2019, the deficit was 1.96% of GDP, in 2020 – 5.18%, in 2021 – 3.63%, in 2022 – 17.62% and the forecast for 2023 – 20.6%. This means that the economy will be able to cover only 80% of planned expenditures. The rest is about USD 38 billion – Ukraine expected to receive from outside.

When finalizing the project of the Law of Ukraine "On the State Budget of Ukraine for 2023" (Draft Law of Ukraine No. 8000, 2022) to the second reading to solve issues of both a social and economic nature, the state budget deficit was increased (up to 20.6% of GDP) as a result an increase in the volume of external borrowings by UAH 16.7 billion. The volume of the public debt was increased by this amount. The estimated amount of the public debt is UAH 6,422.7 billion.

According to forecasts, in 2023 [23], the state budget deficit will increase to more than 26% of GDP (excluding grants in revenues), despite the expected return of the pre-war level of taxation and strengthening of tax administration. According to the inflation report of the National Bank of Ukraine [24], the increase in the deficit will primarily be caused by significant costs for ensuring defense capability and a limited resource base due to the occupation of some regions, the destruction of enterprises and significant migration. "Furthermore, the impact of the economic results achieved before the invasion, including the record harvest that supported last year's budget revenues, has worn off. In the future, a gradual narrowing of the deficit is expected – up to 9.5% of GDP in 2025, excluding grants in revenues", the report said.

During August 2023, according to the Ministry of Finance of Ukraine [25], the amount of the public and state-guaranteed debt of Ukraine increased in hryvnia equivalent by UAH 36.9 billion and in dollar equivalent by USD 1.01 billion. The increase in the amount of public debt in August was mainly due to the fact that the state budget received the seventh tranche in the amount of EUR 1.5 billion within the scope of the large-scale EU macro-financial assistance program. Since the beginning of the year, the value of the public and state-guaranteed debt has decreased by 0.71 percentage points to 6.97%.

In order to fulfill the obligations of Ukraine, determined by the Memorandum on Economic and Financial Policy, approved by the Order of the Cabinet of Ministers of Ukraine No. 242-р dated 03.24.2023 [26], the Parliament of Ukraine in July 2023 passed Law No. 3278-IX [27], aimed at restoring and strengthening certain norms of the Budget Code of Ukraine to ensure the predictability of budget policy, budget balance, and strengthening debt sustainability.

Law No. 3278-IX [27]: restored and strengthened Article 52 of the Budget Code of Ukraine in order to limit amendments to the law on the state budget; the rule on suspending the preparation of the Budget Declaration has been canceled from January 2024; the articles of the Budget Code of Ukraine, which set limits on the provision of state guarantees with clear criteria for such provision, have been reinstated; an update and publication at the end of September 2023 of the medium-term public debt management strategy is planned in order to align it with the goals of the IMF-supported Extended Financing Program for Ukraine.

It is planned that the implementation of the relevant law will contribute to Ukraine's attraction of a loan from the International Monetary Fund in the amount of more than USD 15 billion within the framework of the Extended Financing Mechanism [28], as well as the mobilization of large-scale preferential financing from international donors and partners of Ukraine.

The state budget deficit for 2024 is predicted at the level of 20.4% of GDP [29]. In the conditions of the military aggression of the russian federation against Ukraine, the revenues of the state budget are limited, the expenditures of the state budget are primarily directed to the needs of the Armed Forces of Ukraine, other military formations, law enforcement and other state bodies involved in the performance of tasks related to repelling armed aggression, ensuring the inviolability of the state border and protecting the state.

The Government of Ukraine, with the aim of providing the state with its functions, in particular with regard to the protection of its sovereignty, chooses state borrowing as a source of covering the deficit of state budget funds. Financing of the state budget deficit in the stipulated volumes is planned mainly through state external borrowing, considering the capacity and available liquidity of the domestic capital market.

The maximum volume of state guarantees provided on the basis of decisions of the Government of Ukraine for 2025–2026 will be determined at a level that will not exceed 3% of the planned revenues of the general fund of the state budget for the relevant budget period. Given the shortage of internal resources caused by the full-scale invasion of the russian federation, and the lack of alternative sources of financing the state budget, except for state borrowing, the benchmarks for 2025–2026 remain the maintenance of the growth rate of the public debt at a level that does not exceed the growth rate of GDP.

For 2025–2026, the Government of Ukraine provides fiscal space in the amount of UAH 154,328.6 million in 2025 and UAH 27,615.6 million in 2026. These funds will be distributed during the preparation of the State Budget of Ukraine for the planned year and the Budget Declaration in the next three budget periods, primarily for capital expenditures for the main managers of state budget funds, reforming public administration, etc. At the same time, the Ministry of Finance of Ukraine expects to reduce the burden on the state budget with the help of transactions with state derivatives.

In accordance with the Technical Memorandum with the IMF dated March 24, 2023 [30], in order to promote the restoration of the sustainability of the public debt, Ukraine undertook to continue the settlement of the public external debt as a result of negotiations with official creditors and with the holders of bonds of the external public loan, in particular are considering the possibility of carrying out transactions with state derivatives.

Eric Toussaint [31], the spokesperson of the Committee for the Cancellation of Illegitimate Debt (CADTM), expressed the position that Ukraine's debts should be canceled because "Most of Ukraine's debt, if not all of it, is illegitimate. Such debt was not contracted in the interests of the population, it was accumulated in the interests of 1% of the richest and international creditors; due to the sharp deterioration of social rights and living conditions of the population".

The Committee on Financial Services of the House of Representatives of the US Congress approved the Comprehensive Debt Relief Act of Ukraine, according to which the US Department of the Treasury is obliged to require international financial organizations to "immediately suspend all debt service payments owed to the institution(s) of Ukraine" [32]. And also demand from international financial organizations that they "provide preferential financial assistance to Ukraine and provide economic support for refugees from Ukraine and countries that accept such refugees".

In late summer 2022, after months of insistence by Ukrainians and their allies around the world campaigning for debt relief, Ukraine was granted a temporary freeze on debt payments. This suspended Ukraine's need to service significant debts until the end of 2023 and potentially for another year. But then, in 2022, major creditors such as the International Monetary Fund and the World Bank did not join the debt moratorium agreement.

The European Commission, which lent Ukraine more than 13 billion euros, also did not join the agreement. In the autumn of 2022, Ukraine, the Paris Club and the G7 signed an agreement [33] on the temporary suspension of debt service for one year with a possible extension for another year. This decision concerned about 75% of the total foreign debt.

The 2022 agreement was signed [34] by representatives of the governments of Canada, France, Germany, Japan, Great Britain and the USA. On March 24, 2023, the group of creditors extended the suspension of Ukraine's debt service until 2027.

For example, the case of "yanukovych's debt" is confirmation that the majority of Ukrainian debt is illegitimate, and the borrowing was not in the interests of the Ukrainian people. The details of this case are as follows. In December 2013, when Yanukovych was the president of Ukraine, the russian federation persuaded the Ministry of Finance of Ukraine to issue debt securities worth USD 3 billion the russian federation bought them through a private company (The Law Debenture Trust Corporation PLC) at an interest rate of 5%. It was the first issue, which was to be followed by others to gradually reach

USD 15 billion. In the following year, 2014, the government of Ukraine changed, the people of Ukraine overthrew Yanukovych and he fled to the russian federation, after that the russian federation annexed Crimea.

For some time, Ukraine continued to repay the debt of the russian federation and paid USD 233 million interest. In December 2015, the Government of Ukraine decided to suspend payments, justifying its actions by the fact that it had the right to take countermeasures against the russian federation, which attacked Ukraine and annexed Crimea. According to international law, the state has grounds to take countermeasures and suspend the performance of the contract under such circumstances.

The russian federation transferred the case to the British courts in London since the securities were issued in accordance with English law and filed a complaint against Ukraine with a request to oblige Ukraine to resume payments. The trial began in 2016. Initially, the British chief judge in this case was William Blair. In March 2017, he issued a verdict in which he disagreed with a number of arguments by Ukraine [35]. The judge believed that there was no real coercion on the part of the russian federation against Ukraine and agreed with the claim of the russian federation that the company that bought the Ukrainian securities is private. But this company acted directly on behalf of the russian federation, and therefore, in fact, the russian federation bought securities.

Judge William Blair's decision was later appealed by the Court of Appeal. On March 15, 2023, the Supreme Court of Great Britain ruled in favor of Ukraine in this case. The court rejected the demands of the russian federation [36] for repayment of the debt by Ukraine. But if the russian federation decides to continue the trial, then the appeal procedure will have to go through first.

4. State debt policy in the period of post-war recovery

Ukraine, in addition to the current needs for financing defense and social expenditures, needs resources for reconstruction. According to a joint estimate [37] of the Government of Ukraine, the World Bank Group, the European Commission and the UN, the cost of restoring and reconstructing Ukraine after the first year of the full-scale invasion of the russian federation on the territory of Ukraine is USD 411 billion. This is twice the pre-war GDP of Ukraine. Of them, USD 14 billion already needs grants in 2023 to meet the most urgent reconstruction needs. But the russian federation continues to direct attacks on Ukrainian infrastructure, so the final costs may exceed USD 1 trillion. This is without considering the costs of rebuilding the Ukrainian territories currently occupied by the russian federation.

The cost of reconstruction and rehabilitation is expected to span at least 10 years and will combine both public and private funding. Significant help can come from private investors. However, their investment is only possible after substantial government grants, as many of the infrastructure recovery needs cannot be addressed at all before the explosives are disposed of.

The goal of the governments of Ukraine, the EU, the USA, multilateral agencies and American financial institutions, which are responsible for attracting and allocating funds for reconstruction, is to restore the Ukrainian economy as a form of a special economic zone with public funds to cover any potential losses of private capital [38]. The Financial Times [39] writes: "International public financing must be the basis of reconstruction efforts. But as the private sector is expected to play a central role not only in carrying out the work, but also in helping to finance it, the mobilization of private investment will be required on a scale few have seen before".

The IMF-supported Ukraine Program 2023–2027 [40] aims to anchor policies that promote fiscal, external, price, and financial stability in a period of high uncertainty, enable economic recovery, improve governance, and strengthen institutions for long-term growth in the context of reconstruction and Ukraine's path to joining the EU.

The problem that Ukraine faces in its reconstruction is that a large part of the aid from the West consists of loans, not grants, so Ukraine's debt will be sky-high for generations to come. Loans are mainly long-term, for example, for 25 years (before the war, the average term of long-term loans was 15 years).

For example, in 2022, the EU provided EUR 7.2 billion of macro-financial assistance [41] in the form of loans and grants. The purpose of this is to provide short-term financial relief, fund Ukraine's urgent needs, help rebuild critical infrastructure, provide initial support for sustainable post-war reconstruction, and help Ukraine on its path to European integration. In December 2022, the Verkhovna Rada adopted a legislative package that enabled the EU to provide financial assistance to Ukraine during 2023 in the amount of EUR 18 billion. In 2023, a new function was added to the terms of the new EU loan [42] for EUR 18 billion: the "interest subsidy" (interest will be paid by EU countries, not Ukraine) is activated only if there is "compliance with political prerequisites".

The new Ukrainian Development Fund (UDF) [38], which will be managed by BlackRock and JP Morgan, will "focus on mobilizing additional private capital and increasing the portfolio of attractive projects; offer flexible, tailored financing to fill early-stage financing gaps or structural financing gaps and reduce private equity risk". UDF aims to "help raise USD 50+ billion in private capital, which is targeted by UDF and other institutions investing in Ukraine in key economic sectors, including: technology, logistics and transport corridors, green energy, natural resources, infrastructure reconstruction, digitalization, agriculture and food, health care and pharmaceuticals".

It is interesting to think that Ukraine can become the center of the European "green transformation" [38], given the country's natural advantages in becoming a major supplier of carbon-free energy, ecological metallurgy, and hydrogen. Ukraine can become a world leader in the field of digital technologies to increase transparency and effective economic management.

The governments of the USA, Australia, Canada, France, Germany, Italy, Japan, Great Britain and the European Commission confiscated USD 300 billion assets of roscentrbank after 24.02.2022. The amount at the time of confiscation was about half of russian foreign reserves. Most of the money is more than USD 200 billion [43] is "frozen" on European accounts. The aforementioned governments also confiscated [44] tens of billions of dollars worth of assets belonging to russian oligarchs and private entities. The figure of USD 300 billion is approximate calculations. There are problems with the transparency of these assets: it is not legally established who is the owner, who is the final beneficiary, from whom the funds come and where they are kept, who controls the trusts, etc. For example, according to information from British parliamentarians, one russian oligarch transferred a large sum of money to trusts controlled by his children, including his nine-year-old daughter. Parliamentarians of Great Britain proposed amendments to the legislation that would make information more transparent.

Among the governments holding seized russian assets are many whose taxpayers have been providing large packages of military, financial, and humanitarian aid to Ukraine since the invasion [45]. Ukraine's allies agree that the russian federation is waging an illegal war of aggression, and therefore the russian federation should be responsible for paying the reconstruction bill. States are considering various legal and financial mechanisms through which it will be possible to use "frozen" assets to support and restore Ukraine.

Allies of Ukraine are united in the fact that the russian federation should compensate Ukraine for the damage caused. The constant refusal of the russian federation to comply with international law gives grounds for applying unprecedented countermeasures against it, in particular the confiscation of assets and the redirection of assets to Ukraine. Also, the allies agree that it is necessary to rebuild already, without waiting for the end of the war. People now need houses, critical infrastructure, schools, kindergartens, hospitals, etc.

There is an ongoing debate about how far to go and what global financial and political consequences the seizure of sovereign assets might have. The UN has established [46] that the russian federation has seriously violated the norms of international law and this violation is a subject of common international concern. Such a decision gives the Member States the right to act. The UN General Assembly approved an international mechanism for compensating Ukraine for damages and injuries caused by the russian federation during the war. Such a plan can give the russian federation another opportunity to fulfill its international obligations.

US Treasury Secretary Janet Yellen stated [47] that seizing russian government assets is hindered by “significant legal hurdles”. A bipartisan group of US lawmakers introduced legislation [48] that would give the president legal authority to do so. Proponents of confiscating russian assets point out that the US President can use emergency powers to transfer sovereign assets to an escrow account intended to rebuild Ukraine. They refer to similar economic countermeasures [49; 50] that Presidents Ronald Reagan and George W. Bush took against Iranian state assets in 1981 and Iraqi funds in 1992, respectively.

Canada has passed a law allowing russian assets to be redirected to Ukraine [51]. Thus, it became the first country in the world whose legislation ensured the channeling of sanctioned russian assets in the interests of Ukrainian war victims. However, so far Canada has not found a legally reliable way to seize and confiscate these assets.

Great Britain is looking for possible options to confiscate russian assets and redirect them to Ukraine. As of August 2023, 1627 individuals and 238 legal entities are subject to the sanctions of this country [52]. More than GBP 26 billion of state assets of the russian federation have been “frozen”. In total, the UK targeted 129 oligarchs with a combined net worth of over GBP 145 billion [53]. Parliamentarians are actively debating with government officials in order to work out a solution and present their draft law by September of this year.

In Switzerland, they are announcing their intention to require all oligarchs to prove the legitimacy of their fortunes in order to protect them from confiscation. However, it is not known whether neutral Switzerland will act in this way, because it will reflect on its investment (banking) attractiveness. It is known that Swiss banks hold more than USD 200 billion of russian assets, of which only USD 8.4 billion was “frozen” in 2022 [54]. Thus, the Swiss government broke a long tradition of neutrality by agreeing to introduce European Union sanctions against russian companies and individuals in 2022. However, in 2023, the US Department of Justice intensified its investigation [55] of two Swiss banks – Credit Suisse Group and UBS Group AG – for suspected compliance violations that allowed russian clients to evade sanctions.

Let’s emphasize the difference between the seizure of private assets and the seizure of state assets. There are more problems with government assets because of sovereign immunity.

The European Central Bank has warned the bloc’s leaders that attempts to use seized russian government assets could “tarnish” the euro’s international reputation as the second-largest reserve currency, increase the cost of borrowing for European governments and damage trade relations with the EU.

In the US, similar concerns are expressed [56] about the potential damage to the US dollar. However, some financial experts say there is little cause for alarm, as foreign governments have largely already factored these risks into their reserve allocations. American experts also point out that there are few alternatives to placing huge reserves in dollars or euros or the currencies of US allies that are actively traded. Other foreign policy analysts warn [57] that the russian federation may use Western confiscation efforts as a propaganda tool to inflame domestic support for the war and its regime. German Chancellor Olaf Scholz and other politicians expressed concern that such actions could violate international law [58]. The announcement of the agreed EU proposal on the use of “frozen” russian funds has been postponed until September [59].

According to international law, the russian federation has no right to compensation (for confiscated assets) if the countermeasure is proportionate and caused by a serious violation by the russian federation of mandatory norms of international law. This violation has already been confirmed by the International Court of Justice of the United Nations and the United Nations. Since the countermeasures would place russian assets in escrow for the benefit of the victims, rather than for the transferring state’s own public use, any russian claims could be set against the rights of those affected by russian aggression.

According to international law, the participating countries could jointly notify the russian federation of their decision to take countermeasures. The G7 could inform and assess russia’s readiness for negotiations, but without contributing to the russian military strategy of delay and further destruction.

It is important that the states that confiscated various russian assets, for example, real estate (yachts, apartments, cars) that need maintenance, spend their budget funds on it. Unsolved is the issue of profits from “frozen” assets.

The war, which has been going on for 10 years, has caused thousands of deaths, wounded adults and children, terrible destruction, and caused irreparable damage to the environment. Further delay of justice will be denial of justice. The transfer of “frozen” russian reserves to Ukraine would be a morally correct, strategically wise and politically expedient step. This would serve as a serious warning to other countries that may be considering wars of aggression. It would be a reminder of how costly an attack on global norms can be in a deeply interconnected world.

Conclusions

Having studied the debt policy in the conditions of the war economy and post-war recovery allows us to draw a number of conclusions:

1. The structure of public debt: the increase in the amount of public debt in recent years is largely due to the need to finance the budget deficit, which arose as a result of extraordinary spending on defense and social needs. The growth

of domestic debt was noted as a positive trend from the point of view of reducing currency risk.

2. Risks and challenges: despite the active involvement of external financing, Ukraine faces high risks associated with dependence on international financial markets. It is important to continue work on diversification of sources of financing and improvement of the efficiency of the use of borrowed funds.

3. Macroeconomic stability: the study confirmed that the stability of the debt policy is closely related to the macroeconomic stability of the country. Effective management of public debt will contribute to strengthening the confidence of investors and increasing the country's credit rating.

4. External influences: the analysis revealed the importance of monitoring external economic conditions, primarily changes in international interest rates, which can significantly affect the conditions for servicing the public debt.

5. Prospects for further research: further research into Ukraine's debt policy should be focused on the development of forecasting models for the impact of global economic and political changes on public debt. It is also important to consider new mechanisms for optimizing the debt structure, in particular the possibility of refinancing and the use of innovative financial instruments.

These findings emphasize the need for constant analysis and adaptation of debt policy to changing conditions. The development of effective public debt management strategies remains a key task for guaranteeing the economic security and financial stability of Ukraine.

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