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EUROPEAN PRACTICE OF PUBLIC DEBT MANAGEMENT IN CRISIS CONDITIONS

In the context of global challenges caused by the Russian military aggression against Ukraine, the aggravation of geopolitical conflicts and the growth of defense spending in the European Union countries, the problem of effective public debt management has become particularly urgent. The sustainability of public finances directly depends on the ability of governments to balance between ensuring sufficient financing for defense needs, maintaining socio-economic stability and preventing excessive debt burden on future generations. That is why the study of European experience in public debt management in crisis conditions and its adaptation to Ukrainian realities is of significant scientific and practical value.

The purpose of this work is to generalize approaches to public debt management in Western European countries in times of crisis and to identify opportunities for using these instruments in Ukraine to increase the effectiveness of debt policy.

The object of the study is public debt and mechanisms for its management in times of crisis.

The methodological basis is made up of comparative analysis methods, a structural-functional approach, elements of statistical and economic-mathematical modeling, as well as an analysis of publications of the European Central Bank, the IMF, the World Bank, and national treasuries of the EU countries. The theoretical basis is modern concepts of fiscal sustainability, debt dynamics, and the theory of optimizing the structure of public borrowing.

The last decade has shown that public debt in the EU countries is not only a tool for financing budget deficits, but also an important element of strategic security. After 2022, the average level of military spending in NATO countries increased from 1.7% of GDP to over 2% of GDP, and in a number of countries – even to 3% of GDP (for example, in Poland and the Baltic countries). At the same time, the increase in spending led to a significant increase in the volume of public borrowing. As of the end of 2024, the average level of debt in the EU exceeds 84% of GDP, and in France and Italy – over 110% of GDP [3–5]. This indicates an increase in fiscal risks, which are closely

related to global challenges: energy shocks, migration crisis, inflationary pressure and instability in financial markets.

For Ukraine, this issue is extremely relevant, because in the conditions of war, the state debt increased to over 94% of GDP in 2024, and a significant part of the budget financing is provided by external loans and grant support from international partners [1–3]. This creates risks of debt dependence and requires the search for management models that allow combining defense financing, economic recovery and support for macro-financial stability.

Western European countries have introduced a number of instruments in response to new security challenges [1–5]:

- diversification of debt instruments. The German government is actively using the issue of “green bonds”, which allows raising funds on favorable terms for infrastructure and defense projects. In France and Belgium, long-term fixed-rate bonds (OATs), which reduce refinancing risk, have become a common practice;

- fiscal rules and debt limits. The Maastricht criteria (60% of GDP) formally remain a guideline, but the EU is adapting them to take military spending into account. For example, in 2023–2024, a new budget reform was adopted that allows for temporary exceeding of debt limits to finance security needs, with the condition of gradual fiscal consolidation;

- the role of supranational institutions. The European Stability Mechanism (ESM) and the European Investment Bank actively provide support to countries with a high level of debt burden. This reduces the cost of borrowing and spreads risks;

- innovative approaches to debt strategy. EU governments are expanding the practice of issuing military bonds (for example, “Bundeswehr Bonds” in Germany), which allows mobilizing funds from citizens and institutional investors for specific defense projects;

- anti-crisis liquidity management. The experience of Spain and Portugal shows that creating a “liquidity cushion” in the form of reserve accounts in central banks reduces short-term default risks and increases the sustainability of public finances.

Analysis of European practice allows us to formulate a number of proposals for adapting effective mechanisms for public debt management in Ukraine [1–5]:

- introduction of new debt instruments. Ukraine can expand the practice of issuing “military bonds” for the population, increasing their attractiveness through tax breaks or liquidity guarantees. In parallel, the possibility of issuing “green” and “renewable” bonds for specific infrastructure projects should be considered;

- strengthening fiscal rules. It is advisable to establish in the Budget Code of Ukraine medium-term debt limits and rules that will provide for a gradual reduction in the debt burden after the end of the war, considering defense needs;

- cooperation with supranational institutions. It is important to expand co-financing instruments with the EU and international organizations to reduce the cost of borrowing and share debt risks;

– formation of a “liquidity cushion”. It is advisable to create a reserve stabilization fund, which will be replenished at the expense of international assistance and domestic resources, which will allow covering short-term cash gaps without new borrowing;

– long-term debt policy strategy. Ukraine should develop a new public debt management strategy until 2035, which will include structuring debt obligations, reducing the share of short-term loans, optimizing the currency structure and developing the domestic capital market.

The experience of Western European countries demonstrates that effective public debt management in crisis conditions is possible only if institutional discipline, innovative financial instruments and international solidarity are combined. For Ukraine, the key task is to transfer these practices to the public finance management system, considering the conditions of a war economy. In particular, it is necessary to develop the domestic market for debt instruments, ensure transparency and predictability of debt policy, and create mechanisms of trust between the state and investors.

The practical value of the proposed measures lies in increasing Ukraine's debt sustainability, minimizing default risks, and providing a resource base for post-war economic reconstruction. Thus, the European practice of public debt management in crisis conditions can serve as a guide for Ukraine, helping to form a balanced model of debt policy that will simultaneously guarantee financial stability and national security in all its forms.

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