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PUBLIC FINANCES IN WAR TIMES: FRAGILITY, RESILIENCE AND STABILITY

The russian-Ukrainian war as an extreme socio-economic shock radically transforms the nature of the functioning of public finances. In the conditions of full-scale aggression of the rf against Ukraine, the issue of ensuring the stability of public finances and the simultaneous financing of colossal defense needs becomes a determining factor in the survival of the state and its economic system. The relevance of the study is due to a double challenge: on the one hand, the reference to the fragility of public finances due to the budget deficit and the growth of the debt burden, and on the other hand, the need to create a basis for the post-war reconstruction of the public finance management system.

The purpose of the study is to analyze the state and dynamics of Ukraine's public finances in the context of the russian-Ukrainian war, to outline their key characteristics (fragility, resilience, stability), and to develop proposals for strengthening the public finance management system, considering best international practices. The object of the study is the public finance management system of Ukraine during the war. The methodological basis is a combination of comparative analysis methods, a systemic approach to assessing public finances, and a generalization of statistical data from the Ministry of Finance of Ukraine, the National Bank of Ukraine, the International Monetary Fund, and the World Bank. The theoretical basis is the concepts of public finance sustainability, fiscal risks, debt policy, and macro-financial stability.

Since the beginning of the russian-Ukrainian war in February 2022, Ukraine’s public finances have faced unprecedented challenges. General fund expenditures of the state budget increased from UAH 1.3 trillion in 2021 to over UAH 3.1 trillion in 2023, with more than 60 % going to the needs of the security and defense forces. The budget deficit in 2023 reached UAH 1.3 trillion (about 20 % of GDP), and the level of public debt exceeded 90 % of GDP [1–3]. Thus, the fragility of public finances is manifested in [1–6]:

– the significant dependence of the budget on external financing (in 2023, more than 50 % of all revenues were provided by international grants and loans);

– a high level of current consumption of funds with limited investment spending;

– the risk of instability of the domestic debt market due to the increase in the yield of domestic government bonds.

Despite this, public finances demonstrate elements of resilience. Thanks to close cooperation with international partners, Ukraine received over USD 80 billion in financial support in 2022–2024. At the same time, uncontrolled inflation was avoided at the domestic level [5–6]: in 2023, its level was 12.9 %, while in 2022 it exceeded 26.6 %. Tax revenues are gradually recovering [5–6]: in the first half of 2024, they increased by 18 % compared to the same period in 2023. The sustainability of public finances is also supported by the effective actions of the NBU, which managed to stabilize the exchange rate and ensure a controlled monetary policy.

Fiscal risks negatively affect the sustainability of public finances, and in the conditions of the russian-Ukrainian war, their impact is amplified due to [1–2; 4]:

– the risk of debt dependence – a significant part of borrowing has short repayment terms, which creates pressure on public finances in the medium term;

– the risk of structural deficit – even after the end of the war, a high level of spending on security and social programs will remain;

– the risk of investment lag – limited capital investments threaten long-term economic development;

– the risk of vulnerability to external shocks – dependence on decisions of donors and creditors limits fiscal sovereignty.

Proposals to strengthen the sustainability of Ukraine's public finances [1–6]:

– diversification of funding sources. It is necessary to more actively develop the domestic market for government bonds, including for individuals, through digital channels. This will reduce dependence on external resources and at the same time ensure the sustainability of public finances;

– extension of borrowing terms. It is important to conclude agreements with international creditors on long-term financing terms with preferential rates and deferred payments;

– strengthening the fiscal base. The fiscal base should be gradually expanded by de-shadowing the economy (today the share of the shadow sector exceeds 30 % of GDP);

– creation of a post-war recovery fund, the financing of which can be carried out through the issuance of targeted “reconstruction bonds” with international guarantees;

– optimization of budget expenditures. Gradual reduction of ineffective subsidies and increased targeting of social programs will reduce the burden on the budget;

– introduction of a medium-term public debt management strategy. The goal is to maintain the debt burden at a level not exceeding 100 % of GDP in the medium term, with a gradual reduction to 70 % of GDP after economic growth resumes.

The proposed measures allow us to outline a roadmap for stabilizing public finances in crisis conditions. The implementation of the recommendations will contribute to:

– reducing the budget deficit to 3–4 % of GDP in the medium term;
– increasing the share of domestic sources of financing to 40 % of all borrowing;
– keeping inflation below 10 % after 2025;
– ensuring conditions for annual economic growth of 4–5 % after the end of the russian-Ukrainian war.

Ukraine's public finances in wartime are characterized by fragility due to large budget imbalances and dependence on foreign aid, resilience due to coordinated government action and international support, and potential stability through the implementation of structural reforms and an effective public debt management strategy. The combination of these three characteristics – fragility, resilience, and stability – defines the special nature of Ukraine's public finances in wartime. Maintaining and strengthening resilience will be a key prerequisite not only for survival in wartime, but also for Ukraine's economic recovery and integration into the European economic space.

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