

SECTION 3

FINANCE, ACCOUNTING, BANKING, INSURANCE

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Slavkova A.

Candidate of Economic Sciences, Professor,
Professor at the Department of Finance named after Viktor Fedosov
Kyiv National Economic University named after Vadym Hetman
ORCID: <https://orcid.org/0000-0002-8337-8679>

Hladchenko L.

Candidate of Economic Sciences, Associate Professor,
Associate Professor at the Department of Finance
named after Viktor Fedosov
Kyiv National Economic University named after Vadym Hetman
ORCID: <https://orcid.org/0000-0003-1533-3505>

ENSURING UKRAINE'S FISCAL SUSTAINABILITY UNDER MARTIAL LAW

The full-scale war posed an unprecedented challenge to Ukraine's public finance. Economic activity declined significantly in the early years, some of the country's productive capacity was lost, while the need for funding for defense and social support rose sharply. This naturally increased pressure on the budget and turned fiscal sustainability into one of the key issues for the country's economic policy. The issue concerns not only the balance of revenues and expenditures, but also the state's ability to perform its basic functions under conditions of limited resources and high risks.

In this context, fiscal sustainability should be understood as the state's ability to meet its budgetary commitments over various time horizons without accumulating critical imbalances in the financial system. In wartime, this approach represents a compromise between expenditure requirements and the state's capacity to finance them, while this balance remains unstable and continuously evolves under the influence of external factors.

Fiscal sustainability plays a key role in building confidence in the economic system and creating the conditions necessary to attract investment, which directly affects the level of national economic security. At

the same time, achieving fiscal sustainability is complicated by a number of factors, one of the most significant of which is the high levels of public debt. When the debt burden is significant, the proportion of budgetary resources allocated to servicing that debt increases, which limits the state's ability to finance infrastructure development, education, and the healthcare system [1, p. 45]. Consequently, this may hamper economic growth and have a negative impact on the population's standard of living.

Between 2021 and 2025, Ukraine's public finance underwent a significant structural overhaul. After 2022, spending rose sharply, primarily on defense and social programs, which rapidly increased the budget deficit. However, revenues did not decline proportionally to the scale of the shocks – a certain degree of stability was maintained due to international financial support for Ukraine (Table 1).

Table 1

Trends in Ukraine's Key Fiscal Sustainability Indicators Under Martial Law

Indicator	Year				
	2021	2022	2023	2024	2025
State budget revenues, in billions of hryvnias	1296,9	1787,4	2672,0	3122,7	3834,2
State budget expenditures, in billions of hryvnias	1490,3	2705,4	4014,4	4486,7	5473,6
State budget balance, in billions of hryvnias	-197,9	-914,7	-1333,1	-1358,5	-1635,8
Public debt, % of GDP	48,9	78,5	84,4	91,2	101,2
International financial support for the national budget, in billions of U.S. dollars	-	~31	~42,6	~41	~38-40*

* nominal/program values

Source: calculated by the authors based on [2].

Under these circumstances, international financial assistance has effectively become a cornerstone of the budget system. After 2022, it was external support that made it possible to finance a significant portion of expenditures without resorting to monetary emission. This allowed for the maintenance of macrofinancial stability even during periods of sharp fluctuations in the economic environment. Consequently, the fiscal model took on a hybrid character, with domestic revenues supplemented by systematic external support.

At the same time, the debt burden has been growing quite rapidly. A particularly significant indicator is the increase in public debt to above 100% of GDP in 2025, which points to the growing dependence of the state budget on external financing. This is not critical in the short term, but it creates additional risks for medium-term sustainability and requires a more prudent debt policy.

Under martial law, fiscal sustainability largely depends on the state's ability to adapt its fiscal policy in a timely manner to a changing economic environment. This requires improving mechanisms for generating budget revenues, broadening the budget revenue base, and enhancing the efficiency of public finance management. An important consideration is the need to coordinate fiscal and debt policies with monetary policy and macrofinancial stabilization objectives. Under these conditions, the importance of the rational allocation and concentration of budget funds in areas critical to national defense, social support for the population, and post-war economic recovery grows [3, p. 15].

The overall situation indicates that Ukraine's fiscal stability currently rests on three pillars: domestic budgetary resources, international financial support, and debt financing instruments. The relative contribution of these sources is changing, but it is the combination of these sources that allows the public finance to remain operational. At the same time, a number of risks persist. The most evident of these are related to dependence on external financing, the increase in public debt, the duration of hostilities, and the scale of post-war recovery needs. Under such conditions, the objective of medium-term policy is not only to stabilize budgetary indicators but also to gradually strengthen the domestic revenue base and improve the efficiency of resource allocation.

Bibliography

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