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TRANSFORMATION OF THE BUDGET SYSTEM OF UKRAINE IN THE FACE OF EXTRAORDINARY CHALLENGES AND THREATS

ABSTRACT

Full-scale hostilities have had a significant impact on the budget system due to increased spending on defense, reconstruction, and humanitarian assistance to vulnerable groups, which has affected the accumulation of budgetary resources. The article examines the impact of extraordinary challenges and threats on the national budget system, in particular, on the structure and volume of budget revenues and expenditures, the growth of the budget deficit and public debt, changes in regulation in the field of public finance, and the potential of financial capabilities of the regions. The purpose of the article is to make a scientific and practical assessment of the problematic aspects related to the transformation of the budget system, to outline the ways of attracting financial resources that can be used for the purpose of distribution and redistribution to perform the functions of the State, to identify the main areas of influence of emergency challenges and threats on the budget system of Ukraine and the priority areas and measures of budget policy in wartime.

The authors conclude that the strategic and main directions of Ukraine's development need to be improved in the strategy of public finance management and financial and economic security as part of the implementation of the Memorandum of Economic and Financial Policies by the IMF. At the same time, the relevant legislative changes to the state budget for 2023 that meet the needs of Ukraine are studied, and the implementation of the first preparatory stage for the development of the National Revenue Strategy is analyzed. The authors emphasize the positive impact of decentralization on local self-government and the financial sustainability of local budgets. It is proposed to empower communities through monitoring the implementation of local budgets. In the context of defense needs, the possibility of including defense expenditures during martial law in local budgets is considered.

Keywords: fiscal sustainability, financial stability, budgetary system, budgetary security, local budget, taxes, National Revenue Strategy (NRS), public finance, extraordinary challenges and threats

JEL Classification: H12, H21, H53, H56, H61, H71, H72

INTRODUCTION

The growth of financial globalization and the weakening of state control over monetary relations put national financial sovereignty at risk. The global financial and economic crisis of 2008-2010 and the crisis triggered by the pandemic shock of 2020-2021 caused the largest imbalances in the revenue and expenditure sides of the state budgets of countries, an increase in budget deficits and public debt over the past 75 years (Han et al, 2023), although they had different causes: the first was due to the lack of effective regulatory oversight and insufficient risk assessment of speculative financial capital, the accumulation of imbalances between the real and financial sectors of the global economy, and the second was due to the decline of national health care systems as a result of significant cost cuts, a decline in the quality of health care and the total number of medical personnel. Resolving systemic fiscal issues and implementing measures aimed at improving the sustainability of the budget system is an extremely important task for many countries, especially given the unpredictability of economic development, the

emergence of crisis, and contagion phenomena as a result of globalization, integration, and convergence of national economic systems.

Emergencies always pose challenges to the state and require adaptation in all spheres of life, including the financial sector. One of the key aspects subject to major changes during martial law is the revenue side of the State Budget of Ukraine. Since the state's revenues are subject to significant fluctuations and redistribution due to a number of factors, such as increased military spending, economic instability, and changes in the consumer pattern of citizens, it is important to pay special attention to the study and analysis of trends in the revenue side of the Ukrainian budget during martial law. Under these conditions, they have a significant impact on the country's financial stability, ability to finance defense operations and infrastructure restoration, as well as on the level of social protection of the population. By looking at these trends, we will get a better idea of how the war affects economic development and what changes are taking place in public financial policy to ensure the sustainability of public finances and financial security. Significant changes in the budget revenues at this time require careful monitoring, analysis, and effective financial decisions to meet the needs of defense and social support.

Effective management of state budget revenues is important for the financial resilience/sustainability and development of the country. Moreover, the global changes caused by the full-scale Russian invasion of Ukraine are characterized by serious consequences for the national economy and financial system. The Decree of the President of Ukraine, approved by the Law of Ukraine No. 102-IX of February 24, 2022, introduced martial law (President of Ukraine, 2022). For the first time since gaining independence, Ukraine has faced challenges, risks, and threats of an existential nature.

Local budgets, including those of amalgamated territorial communities (ATCs), are an important part of the country's budget system, although they are not part of the State Budget of Ukraine or other local budgets. They played a significant role in overcoming the consequences of the coronavirus pandemic and during the martial law introduced on February 24, 2022, in particular in the first months of the undeclared war. Ensuring the financial self-sufficiency of local governments is an important task in the context of ensuring fiscal and financial national security. It is necessary to make and implement decisions on financial resilience and ensure the proper functioning of the consolidated budget of the country, as coherence and rapid coordination between the links of the budget system are a critical aspect for ensuring financial stability and support for the state, which makes it necessary to determine the role and importance of budgetary resources.

LITERATURE REVIEW

The formation of the budget system is the subject of research by many domestic scholars who have made a significant contribution to the study of this issue. In particular, the fundamental provisions on effective management of the budget process are set out in the works of such scholars as Bohdan T. (2017), Iefymenko T. (2023; 2017), Kyrylenko O. (2022), Kudriashov V. (2023; 2016), Lunina I. (2022; 2020), Lyutyi I. (2022), Marchenko S. (2022), Tretiak D. (2022), Vozniak H. (2021), etc.

It should be noted that in the context of researching this topic, the leaders of the Academy's creative team made a significant contribution to the formation of the theoretical and practical basis for the formation and functioning of the budget system of Ukraine. A series of publications by the Academy's scientists is of particular importance in the context of extraordinary challenges and threats that significantly affect the national budget system. In particular, the research of the academician of the National Academy of Sciences of Ukraine T. Iefymenko (2023) emphasizes that in the future, a significant expansion of current and investment financing will be needed to overcome the consequences of the military crisis, but the difficulty lies in the need to simultaneously promote economic growth and increase revenues of the state and local budgets, ensuring macroeconomic stability and financial sustainability at the proper level. V. Kudriashov (2023) identifies measures to introduce new approaches to managing operations to attract and use resources within the framework of financing the state budget, and emphasizes the growing gaps between the growing expenditures of the state budget and their coverage by revenues and, as a result, the growing burden on its financing, which requires significant changes in the sources of funds and mechanisms for their implementation. T. Bohdan (2017) argues that to ensure the functionality of the medium-term budget planning system, it is extremely important to set clear limits on budget expenditures, making them mandatory for organizations that manage budget funds. In addition, it is necessary to integrate annual budgets into the medium-term framework, develop a system of monitoring and procedures for adjusting budget plans in case of immediate crises, and formulate realistic estimates of the financial consequences of current political decisions over the medium-term horizon.

The main focus of S. Marchenko's (2022) research is an integrated approach to interrelated issues of macroeconomic policy, public finance management (including budget policy, internal control, and external audit), taxation, as well as

harmonization of national statistics with European norms and standards contained in Chapters 2, 3, 4, 5 of Section V "Economic and Sectoral Cooperation" of the Agreement in the field of budget policy: development of a medium-term budget forecasting/planning system; improving program-targeted approaches in the budget process and analyzing the efficiency and effectiveness of budget programs; improving the exchange of experience and information on budget planning and execution and the state of public debt.

The synergy of scientific support from the creative teams of the leading institutions of the National Academy of Sciences of Ukraine on the functioning of the budget system and policy is revealed in Lunina et al. (2022) through the development of a new concept of fiscal space formation in the wartime and post-war periods based on foreign experience. This involves the use of specific domestic sources of financing budget expenditures, an increase in international assistance (in the form of grants and loans on favorable terms); and the involvement of the National Bank of Ukraine (NBU) in the purchase of government securities.

The recent publication by representatives of the professional community of the Taras Shevchenko National University of Kyiv, authored by I. Lyutiy et al. (2022), brings to the fore the crucial issue of enhancing open and democratic control over the budget process in Ukraine's defense and security sector, in line with the emerging principles of information openness and the classification of information as a state secret. The authors have strongly underscored the urgent need to formulate transparent budgeting standards and implement an open indicative system to monitor and evaluate the budget process in the defense and security sector. The researchers have put forward conceptual approaches to ensure the effective utilization of budgetary resources in the defense and security sector, which involve consolidating the practical implementation of transparency and openness of budgeting principles, developing robust mechanisms for budget oversight, and strictly adhering to public accountability standards. The study highlights the imperative to introduce budget transparency standards that align with the priorities of Ukraine's Military Security Strategy, with a specific emphasis on the aspects of transparency and openness of financial reporting of budgetary institutions.

Researchers from Taras Shevchenko National University of Kyiv D. Tretiak & N. Miedviedkova (2022) in their publication emphasize the use of a risk-based approach in the system of forming the state budget of Ukraine in times of war and provide practical recommendations for managing fiscal risks. The authors emphasize that the introduction of a risk-oriented public administration mechanism is the main guarantee of the public administration reform system, which will reduce the number of problematic aspects of the activities of public executive authorities and increase the competitiveness of the state.

As we can see, numerous scholars and practitioners have studied the various issues with the budget system. Despite the diversity of its development directions, the development of the country's budget system is a key area in strengthening national financial and economic security. This is especially important given the military operations in Ukraine, the priority vector of European integration, and our country's acquisition of the EU candidate status.

AIMS AND OBJECTIVES

The purpose of the article is to make a scientific and practical assessment of the problematic aspects related to the transformation of the budget system, to outline the ways of attracting financial resources that can be used for the purpose of distribution and redistribution for the performance of the State's functions, to identify the main areas of influence of emergency challenges and threats to the budget system of Ukraine and the priority areas and measures of budget policy in the wartime period. In accordance with this goal, the main tasks are to study the current state of functioning of the national budget system, evaluate the state budget revenue indicators under martial law, assess the legally established framework that serves as the foundation for any research and has been changed accordingly, develop recommendations to bolster the revenue side of the state budget within the legislative boundaries of Ukraine and ensure its regulation.

METHODS

The study's hypothesis assumes that the national budget system has a substantial influence on the level of economic growth, provided that the mechanisms of state management and regulation of the country's financial system are brought into line with the requirements for regulating the achievement of an optimal state and ensuring the advanced development of infrastructure components and address emergency challenges and threats. The study uses scientific methods to reveal the main principles and content of budget formation during martial law in Ukraine. Various scientific methods were employed including analysis, synthesis, induction and deduction, abstraction, search, comparison, and generalization, as well as statistical and analytical methods of studying the budget state, which are based on a statistical sample of the main

financial regulators of the country - the National Bank of Ukraine and the Ministry of Finance of Ukraine. In conducting the analytical research and analysis of budgeting, the authors used the methods of grouping, analysis and synthesis, graphical and economic, and statistical methods. The methods of induction, deduction, comparison, observation, and measurement were used to put forward and test a scientific hypothesis, determine trends in the development and practice of the national budget system; analysis and synthesis - in a comprehensive assessment of the current state of the budgetary component of the national financial security of the country; analytical, statistical and mathematical - to assess the indicators of financial security of the country; scientific abstraction, grouping - to identify threats and challenges to the financial and economic security of the country, to provide recommendations for improving the budget system development strategy. To develop practical recommendations for improving the implementation of this strategy, the author uses a systematic method and tools of financial and strategic analysis. The applied methods make it possible to reflect both the normalization of the legal framework and the future strategies of the state to strengthen the economic potential, to propose ways to solve the problem of budget formation in Ukraine, and to facilitate further analysis of this issue, which requires constant monitoring, compliance and response in connection with the aggravation of the global economic and geopolitical situation.

RESULTS

The state budget is a key financial instrument of the country aimed at accumulating and distributing financial resources to ensure the fulfillment of its functions. As a centralized fund of the state's financial resources, it aims to provide and accumulate funds for the performance of the state's functions and is used to redistribute income to support the social situation of the population, as well as to influence economic, social, and national processes in society and the implementation by the authorities of the national development strategy aimed at strengthening state security.

2022 was a difficult year for the state budget of Ukraine due to the large-scale invasion of Russian troops and its consequences. This led to a number of serious challenges and factors that affected the budget revenues, and we will elaborate on them below (Figure 1).

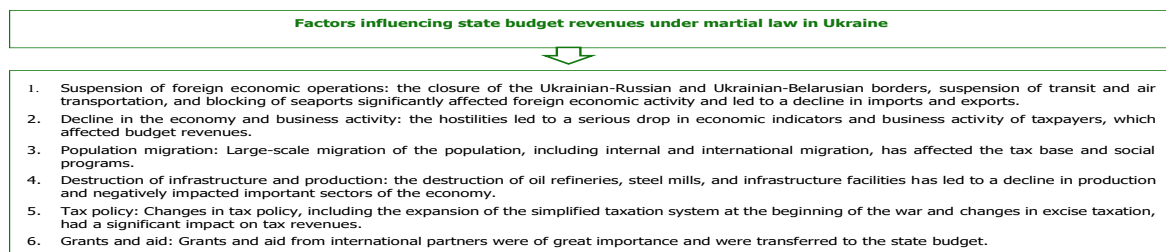


Figure 1. Factors influencing state budget revenues under martial law in Ukraine.

At the same time, the rapid and effective mobilization of financial resources, control over the banking sector, and external financial assistance helped to ensure that budget commitments were met, maintain banking stability, and preserve the country's business reputation in international financial markets. However, there is a possibility that the budget system may experience a reduction in its capacity to execute planned expenses, which can have adverse effects on the efficacy of the social safety net and the situation in the public sector. High risks in the public finance sector will require government agencies to focus on meeting the state's financial obligations, optimizing budget expenditures, improving the financial sustainability of the pension system, stimulating business, and attracting international support.

The state budget should implement the national development strategy aimed at achieving important goals, including strengthening state security. In addition, Ukraine's National Security Strategy prioritizes strengthening defense capabilities, environmental security ensuring energy, and enhancing international cooperation with the NATO and EU (President of Ukraine, 2020). The strategy aims to protect the national sovereignty, territorial integrity, and constitutional order of the country. It also aims to ensure the security of citizens, promote economic growth, strengthen public administration, and identify promising areas for the country's development. This includes ensuring information and economic security and increasing civic engagement.

The sources of revenues of the State Budget of Ukraine include taxes, non-tax revenues, income from investments and transfer payments, etc. The analysis of budget revenues is important for determining fiscal policy priorities and planning

ways to overcome extraordinary financial challenges. The mobilization of state budget revenues involves an in-depth analysis of the planning and execution of its revenue side.

We aim to conduct an in-depth analysis of the factors that demonstrate the characteristics of crafting and executing the state budget while taking into account the circumstances of war. Our investigation will meticulously examine the intended, revised, and actual figures of the revenues for Ukraine's state budget in the year 2022 and the first half of 2023 (Figure 2).

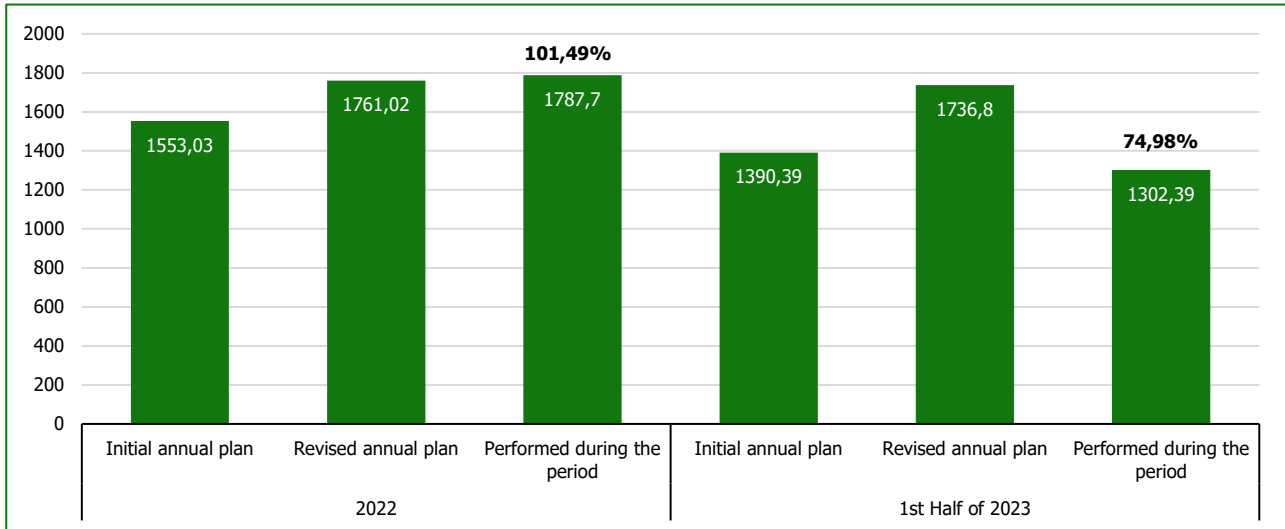


Figure 2. Planned, revised, and actual state budget revenues of Ukraine in 2022 and 1 half of the year 2023, UAH billion and %. (Source: developed by the authors using data <https://openbudget.gov.ua/national-budget/incomes>)

The state budget (general and special funds combined) received UAH 1787.7 billion in revenues, which is UAH 490.8 billion, or 37.8%, more than in 2021 (State Treasury Service of Ukraine, 2022). The initial annual plan for 2022 amounted to UAH 1553.03 billion, and the actual state budget revenues exceeded this figure by UAH 234.7 billion, playing an important role in ensuring the country's financial stability. The state budget revenues amounted to 115.1% of the annual figure approved by the Verkhovna Rada of Ukraine (as amended), which indicates a high level of revenues. The level of execution of the annual plan (revised annual plan for 2022), taking into account the changes made by the administrators of the state budget funds under the special fund, amounted to 101.49%. Evaluating the execution of budget revenues, we can state that in the first half of 2023, UAH 1302.39 billion was executed, which is UAH 674.2 billion or twice as much as in the same period of 2022. This indicates a responsible and effective approach of the Ministry of Finance of Ukraine to the management of budgetary resources in the face of force majeure, which is a key step in ensuring the formation of financial resources for the restoration and support of the state in the context of military conflict (Ministry of Finance of Ukraine, 2022). Challenges and responses to them confirm the importance of flexibility and efficiency of budgetary resource management in times of crisis and military conflict.

In 2022, the Treasury opened and serviced more than 700 thousand accounts for taxes, fees, and other payments to the state and local budgets as a result of the expansion of the classification of budget revenues by 56 new codes. In particular, 34 codes for subventions were added and fees for licenses to organize and conduct gambling activities, as well as licenses to issue and conduct lotteries, were expanded. The Law of Ukraine No. 2042-IX dated 15.02.2022 also introduced important changes, in particular, replacing two accounts opened in Kyiv with separate accounts for the National Police and Ukrtransbezpeka. Due to changes in the distribution standards, accounts for personal income tax (PIT) were registered (State Treasury Service of Ukraine, 2022). These changes contribute to a more transparent, systematic, and efficient collection and distribution of taxes, and ensure the country's budgetary stability.

Further in the study, we will present a statistical analysis of budget revenues for the period of 2020-2022 and the first half of 2023 to obtain more accurate descriptive data and estimate resonant amplitude shifts.

Experts have identified the main risks to fiscal (budgetary) security during the COVID-19 pandemic and martial law: high state budget deficit; significant losses of tax and customs revenues to the state and local budgets; underfunding of certain budget expenditure items due to the limited financial capacity of the state; growth of public debt and its servicing costs; deterioration of the financial and economic condition of state-owned companies; failure to meet the plan for revenues from the privatization of state property (NISS, 2023a; Ministry of Finance of Ukraine, 2023a).

Budgetary indicators are key in assessing the overall state of the country's national security, as the budget plays an important role in financing various sectors and programs that affect the country's financial security and economic development. A decrease in revenues and expenditure efficiency will indicate an overall deterioration in national economic security.

We will assess the indicators of budget security, which include: 1) the ratio of the state budget deficit/surplus to GDP; 2) the ratio of the deficit/surplus of budgetary and extra-budgetary funds of the general government sector to GDP; 3) the level of GDP redistribution through the consolidated budget. The relevant calculated data on the indicators of the state of budget security of Ukraine are presented in Tables 1-2. During the entire period being considered, the state budget remained in deficit. However, from 2015 to 2019, the budget deficit met both the Maastricht criteria (which states that the deficit should not exceed 3% of GDP) (Ukhnal, 2018) and the requirements of the International Monetary Fund (IMF). Furthermore, it was lower than the predicted values that had been approved in the legal framework.

Table 1. Assessment of budget security indicators in Ukraine. (Source: developed by the authors using data National Bank of Ukraine, State Statistics Service of Ukraine, and Ministry of Finance of Ukraine)

Indicators	Threshold value	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
1. State budget deficit/surplus to GDP ratio, percent	[-3-5]	-4.42	-4.92	-2.27	-2.95	-1.60	-1.66	-2.04	-5.15	-3.65	-17.62
2. Deficit/surplus of budgetary and extra-budgetary funds of the GOU sector, percentage of GDP	[-1-1]	0.053	-0.225	-0.114	0.132	0.028	-0.206	0.069	0.299	0.108	8.380
3. Level of GDP redistribution through the consolidated budget, percent	[23-30]	30.22	28.74	32.79	32.82	34.08	33.26	32.45	32.61	30.50	42.32

Fiscal consolidation and responsible fiscal policy ensured a reduction in the deficit from 5% of GDP in 2014 to 2% of GDP in 2019 and a reduction in the debt burden from 81% of GDP in 2016 to 50% of GDP in 2019. The deepest deficit has been observed in recent years (2020-2022 - from 4% to 18% of GDP); in 2020, the budget deficit was 2.7 times higher than in 2019 (UAH 217.6 billion versus UAH 78 billion), and in 2022 - 11.3 times higher. As a result, imbalances in the public finance system are growing due to the pandemic shock caused by a decrease in the potential for filling state and local budgets due to the deterioration in the financial condition of businesses and the population (taxpayers) after the tightening of quarantine measures.

Table 2. Selected macroeconomic indicators of Ukraine in 2013-2022. (Source: developed by the authors using data National Bank of Ukraine, State Statistics Service of Ukraine, and Ministry of Finance of Ukraine)

Indicators	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
GDP in nominal terms, UAH billion.	1465.2	1586.9	1988.5	2383.2	2981.2	3560.3	3977.2	4222.0	5450.9	5191.0
Real GDP, %.	0.0	-6.6	-9.8	2.4	2.4	3.5	3.2	-3.8	3.4	-29.1
Consolidated budget deficit, UAH billion.	63.6 (4.3% GDP)	72.0 (4.5% GDP)	30.9 (1.6% GDP)	54.8 (2.3% GDP)	42.1 (1.4% GDP)	67.8 (1.9% GDP)	87.3 (2.2% GDP)	224.5 (5.3% GDP)	187.8 (3.5% GDP)	845.0 (16.3% GDP)
State and state-guaranteed debt at the end of the year, UAH billion.	584.8 (40% GDP)	1100.8 (69% GDP)	1572.2 (79% GDP)	1929.8 (81% GDP)	2141.8 (72% GDP)	2168.5 (61% GDP)	1998.3 (50% GDP)	2551.9 (60% GDP)	2672.1 (49% GDP)	4072.9 (78.5% GDP)
State budget expenditures on debt service, UAH billion.	34.4 (8.5% expenditures)	51.0 (11.9% expenditures)	86.8 (15.1% expenditures)	97.4 (14.2% expenditures)	111.5 (13.3% expenditures)	116.3 (11.8% expenditures)	120.0 (11.2% expenditures)	120.7 (9.4% expenditures)	153.1 (10.3% expenditures)	159.7 (5.9% expenditures)

Amendments to the state budget for 2020 resulted in an increase in the deficit to UAH 300 billion (8% of GDP, or almost USD 11 billion) and were a response to the expected significant decline in revenues due to economic instability and additional costs of countering the spread of the coronavirus disease. As part of the budget amendments, funds from non-priority state programs were redirected to the COVID-19 Fund in the amount of UAH 64.7 billion (USD 2.4 billion), while the Pension Fund and the National Health Service were allocated UAH 15.8 billion (USD 600 million) and UAH 29.7 billion

(USD 1.1 billion), respectively (Jankovska, 2023). At the same time, spending on subsidies, financial support for education and sports, local elections, and the state census was reduced. Ukraine continued to pursue a loose fiscal policy to support aggregate demand and mitigate the effects of the economic and epidemiological crisis. The limit for the state budget deficit in 2021 was set by law at UAH 246.6 billion (or 3.5% of GDP).

At the same time, the same indicator in other developing countries averages 8.5% of GDP, and at the global level, it is 8.2% of GDP. This indicates a tighter fiscal policy.

The main tax measures for the quarantine period included the abolition of land and real estate taxes, the payment of a single social contribution for obligatory state social insurance (SSC) by individual entrepreneurs, farmers and persons engaged in independent professional activities, payment of land rent, real estate tax and penalties for late or incomplete payment and late submission of tax returns and penalties for late or incomplete payment of SSC; exemption from value-added tax (VAT) and import duties on medicines, medical devices and other equipment used to prevent/control COVID-19; moratorium on inspections by state supervisory authorities in certain areas of economic activity (Verkhovna Rada of Ukraine, 2020a, 2020b, 2020c; Cabinet of Ministers of Ukraine, 2020).

In 2022, in order to preserve the ability to finance the needs of the state budget, military bonds were issued to finance defense and social expenditures totaling UAH 400 billion. According to the Ministry of Finance of Ukraine, as of November 16, 2022, during the war, state budget financing amounted to UAH 1,294 billion, including UAH 541 billion from domestic government bonds, UAH 137 billion from IFIs, and the rest was received under bilateral agreements and grants. So far, more than 90 thousand retail and business investors have invested in military bonds (NISS, 2022).

With the exception of 2022, the values of the deficit/surplus ratio of budgetary and extra-budgetary funds of the general government sector to GDP were mostly in the safe zone and corresponded to a satisfactory level (from -1 to 1%). The increase in expenditures in 2022 was particularly significant when they exceeded GDP by 8.4 times due to the need for budget support for socially vulnerable groups. The vulnerability of the national economy is likely to increase due to a delay in the receipt of external financing, which will affect the stability of the budget, in particular the pension system, and the fiscal sustainability of the country as a whole.

During the analyzed period, the level of GDP redistribution through the consolidated budget exceeded the limits of satisfactory values, which ranged from 23 to 30%. This fact indicates the existence of serious problems in the fiscal sphere that have accumulated over a long period and are systemic in nature. These problems lead to a weakening of the incentive and social functions of the tax system, as well as to increased difficulties in tax and customs administration.

Revenues from the enterprise profit tax (EPT) decreased due to a decline in corporate profits. At the same time, the decline in PIT revenues caused by structural changes in the labor market and a reduction in the public sector wage bill may lead to a decline in state budget revenues. The situation with revenues from taxes on goods and services is expected to improve as consumption recovers and martial law measures are lifted.

The drop in PIT revenues was caused by the loss of income by employees, in particular as a result of job losses. A large number of businesses and individual entrepreneurs were closed due to the destruction of buildings and infrastructure, as well as due to significant migration abroad. However, in the recent period, this was successfully compensated for by personal income tax, which came from the military's salaries.

The decline in excise tax revenues related to excisable goods (products) manufactured in Ukraine was due to several factors: the suspension of production at critical infrastructure facilities, including the fuel and energy sector and tobacco factories, the temporary establishment of zero excise rates on fuel and their subsequent reduction, the destruction of large industrial enterprises, such as "Azovstal", and a significant decrease in the consumption of excisable goods.

VAT refunds from the state budget increased the most at the end of 2022. Delays in their payment were caused by financial difficulties related to the lack of liquidity in the single treasury account, which arose due to the priority financing of defense needs. In addition, there was a short-term impact on the financing of the state budget due to a sharp increase in the number of tax invoices being blocked, even by bona fide taxpayers, due to the amendments to the Resolution of the Cabinet of Ministers of Ukraine No. 1165 dated December 11, 2019. The dynamics of VAT during the war are due to the introduction of electronic administration, control measures to improve the efficiency of its administration in general, the fight against shadow taxation schemes, and a decrease in the actual turnover of retailers due to relocation.

It is also worth noting that the Parliament adopted the Draft Law on Amendments to the Customs Code of Ukraine on the Peculiarities of Importation of Goods for Security and Defense Needs during the Period of Martial Law No. 9062 dated February 24, 2023 (Verkhovna Rada of Ukraine, 2023a). At its meeting on April 10, the Verkhovna Rada of Ukraine adopted as a whole the Law on Amendments to Subsection 2 of Section XX "Transitional Provisions" of the Tax Code on the

Exemption from VAT on the Supply/Importation of Goods for Security and Defense Needs during Martial Law (Verkhovna Rada of Ukraine, 2023b). The task set by the authorities is one of the most urgent in the current situation: to organize the production of ammunition in Ukraine, to repair military equipment and weapons from Western manufacturers that are received as part of logistical assistance and need to be immediately restored by national enterprises. In addition, it is planned to supply important components for electronic intelligence, electronic warfare, radar, surveillance, and guidance systems, as well as warships and boats, including their components, through the conclusion of foreign economic agreements.

This equipment, weapons, ammunition, and services provided by them are a key part of the needs of the Armed Forces of Ukraine (AFU) and other military and law enforcement agencies. In connection with the decision by lawmakers to reduce the financial burden on the state budget, the legislation provides for the exemption from VAT on the import of defense goods into the customs territory of Ukraine and their subsequent supply. The Law also proposes to exempt from taxation the supply of services related to military software, subject to mandatory state control over the international transfer of this software.

The adoption of these legislative acts will make it possible to increase the efficiency of foreign economic projects and ensure timely satisfaction of the critical needs of the Armed Forces of Ukraine in the field of weapons and military equipment, which, in turn, will allow military and law enforcement units to save important financial resources when conducting procurement in these areas.

It is worth noting that there is an uneven distribution of tax and customs revenues to the State Budget of Ukraine across different regions and sectors of the economy. The regions most affected by the hostilities include the occupied, de-occupied, and close to the frontline, which have suffered significant economic losses and, accordingly, their tax and customs payments to the State Budget of Ukraine have significantly decreased. In 2022, compared to 2021, tax revenues to the state budget decreased significantly in the following regions: Donetsk (-UAH 8.1 billion, or -47.5%), Zaporizhzhia (-UAH 5.1 billion, or -37.5%), Luhansk (-UAH 1.9 billion, or -52.5%), Kharkiv (-UAH 7.4 billion, or -17.6%), and Kherson (-UAH 2.7 billion, or -59.5%). At the same time, the Lviv region demonstrated the highest increase in tax revenues in percentage and absolute terms (+7.5 billion UAH, or +51.7%) (NISS, 2023b). There was a redistribution of customs payments in favor of customs offices in the western regions.

We emphasize the aspect that according to the Law of Ukraine "On Amendments to the Tax Code of Ukraine and Other Laws of Ukraine on Peculiarities of Taxation during the Period of Martial Law" No. 8401 dated 31.01.2023 (Verkhovna Rada of Ukraine, 2023c), there was a return to the pre-war tax legislation, rather than an increase in taxes and the introduction of new rates. In particular, as of August 01, 2023, certain provisions of the Tax Code introduced during martial law were terminated. This regulation should contribute to a short-term increase in revenues to the state and local budgets by approximately UAH 8 billion in 2023, in particular through the abolition of the possibility for individual entrepreneurs and legal entities to be on the Group III single tax with a 2% income tax rate; the restoration of the obligation for individual entrepreneurs - Group I and II single taxpayers to pay the single tax, except for those whose tax registration is located in the territories of hostilities or in the temporarily occupied territories of Ukraine; the restoration of penalties for violations of the tax law. The adoption of this draft law made it possible to fulfill Ukraine's obligations under the Memorandum on Economic and Financial Policies and should help increase tax revenues in 2023.

Paragraph 10 of the IMF-Ukraine Memorandum clearly states: "...we will refrain from any tax policy and administrative measures that may adversely affect the tax revenue base in 2023 and beyond while taking measures that facilitate post-war reconstruction and EU accession" (Ministry of Finance of Ukraine, 2023b). The program aims to implement policy measures aimed at ensuring the sustainability of the 2023 budget, and it is combined with medium-term budget planning, which functions as a basis for fiscal policy and financing analysis. This initiative is aimed at ensuring financial sustainability and control over budget resources, identifying and eliminating possible deviations in financing.

In February 2022, the state budget was amended to transparently amend budget categories within the available financial resources. The available financial resources were reallocated to the newly created Ministry of Community, Territorial, and Infrastructure Development with the budgetary allocations necessary to begin reconstruction. Also, the budget program known as the "Fund for the Elimination of the Consequences of Armed Aggression" was transferred from the Ministry of Finance to the Ministry of Community, Territorial and Infrastructure Development with the budgetary allocations necessary to start reconstruction. In addition, changes to the state budget included modernized targeted grants, including to a budget program that supports agricultural lending, and the redirection of the Employment Fund to support businesses under the auspices of the Ministry of Economy.

The IMF Board of Directors has approved a Monitoring Program with Ukraine (MPWU) aimed at establishing stability in the country's macroeconomic policy and actively attracting new donor resources. This initiative reflects the strategic plan to strengthen Ukraine's financial stability and helps to support economic reforms to improve the lives of the population.

In view of the above, the reform program will focus on the following areas:

1. Maximize the mobilization of appropriate revenues to meet the needs for financing recovery and social spending through measures aimed at improving the efficiency, fairness, and simplicity of the tax system. One of the key tools for this process is the implementation of the multi-year National Revenue Strategy for the period 2024-2030 (NRS).
2. Improving fiscal transparency and fiscal risk management.
3. Ensure fiscal sustainability and predictability of the budget policy by restoring and strengthening the provisions of the Budget Code of Ukraine (BCU), including the conditions and procedures for amending the budget.

This comprehensive program is aimed at improving financial sustainability and ensuring the successful implementation of reforms to support the country's economic development and social growth.

The need to develop the NDS, which is being "discussed within the framework of the IMF cooperation program, stems from Ukraine's high current dependence on external assistance and the need to reduce it in the future. The main goal of this strategy is to create conditions for the formation of a domestic revenue base in order to reduce dependence on external sources. One of the most important tasks of the NDS is to ensure fairness in the taxation system" (Klymenko, K., Ukhmal, N., & Semenysheva, N., 2023).

As per the IMF's Structural Adjustment Framework, and specifically with regards to the amendments to the regulation of budget legislation under Structural Adjustment Frameworks 1, 2, 5, 10, 11, and 20, it is essential that the strategy be endorsed before the close of 2023. With the four-year EFF program with the IMF, the second phase of the program, commencing around 2025, is set to focus on significant structural reforms relating to taxes and budget to ensure medium-term revenues, aligned with the implementation of the NDS. Additionally, it aims to enhance public financial management and reform the public investment management system, thereby supporting the post-war recovery process. The memorandum with the IMF outlines the measures required to prepare for and develop the NDS, which includes developing a roadmap that encompasses a clear definition of revenue targets, other policy objectives, and coordination principles between government agencies, donors, the private sector, and civil society, all under the leadership of the Ministry of Finance (Interfax Ukraine, 2023).

The now-enacted law aims to introduce significant changes to the Budget Code to ensure predictability of budget policy and strengthen debt sustainability, as well as to increase the role of the Ministry of Finance in ensuring the balance and validity of budget indicators when amending the law on the State Budget of Ukraine (Verkhovna Rada of Ukraine, 2023d; Ministry of Finance of Ukraine, 2023c). Its main provisions include:

1. The obligation of the Ministry of Finance to provide an expert opinion on each draft law concerning amendments to the law on the state budget; their consideration in the Parliament is possible only if there are conclusions on their support.
2. Restore the conditions for amending the law on the state budget, in particular, preserve the unlimited right to review the expenditures of the security and defense sector only under martial law (Article 52 of the Budget Code of Ukraine).
3. Starting from January 01, 2024, to resume medium-term budget planning by drawing up a Budget Declaration.
4. It is established that in 2023-2028, the maximum amount of state guarantees provided by the decision of the Cabinet of Ministers of Ukraine may not exceed 3% of the planned revenues of the general fund of the state budget (Lb.ua, 2023).

These measures are aimed at ensuring sustainable economic development, increasing tax revenues, and improving the quality of life of citizens. Their implementation requires a synergistic approach, including political will, effective governance, and cooperation between various actors: the government, regional authorities, businesses, and the public. This comprehensive approach to reforms will give an impetus to achieving a high level of development of the domestic economy in the medium and long term. It is important to emphasize that these changes will contribute to the successful implementation of the IMF's four-year Extended Fund Facility (EFF) program for Ukraine.

After reviewing the sources of revenues to the state budget of Ukraine during the period of martial law, we have developed proposals and recommendations to strengthen the revenue side of the state budget and attract donors.

The main steps in this process may include:

1. Unification of methodological approaches: ensuring common approaches and standards for defining and calculating economic and financial indicators. This will help to avoid disputes and disagreements in the definition of important parameters.
5. Enhancing collaboration: fostering effective communication between diverse governmental bodies, subject matter specialists, and educational establishments with the aim of refining methodological frameworks and predictive models.
6. Thorough analysis and validation of data: reviewing and analyzing existing data on the country's economy and finances to determine their accuracy and reliability.
7. Creation of integrated forecasting models: development of comprehensive models that take into account the interrelationships between different sectors of the economy and social spheres.
8. Regular updating of the methodological apparatus: constant updating of methodologies and forecast models of the budget revenues, taking into account changes in macroeconomic conditions, internal and external factors, and improvement of risk management, taking into account the martial law in the country.

This process will help to improve the quality of budget planning and more accurately define the parameters that form the basis for the state budget, ensuring more efficient use of budget resources and achievement of strategic goals of socio-economic development.

Further efforts should be made to strengthen the functional capacity of the tax system. It is important to optimize and increase the efficiency of budget spending, pursue a proactive debt policy, and strengthen the institutional capacity of government agencies that manage budget funds. This is the only way to ensure the resilience and stability of the financial system and to support Ukraine's social and economic development in the future.

To improve the effectiveness of the state budget execution, a number of areas should be considered that may become key in this process. Among them:

1. Focus on achieving the planned volumes and increasing the sources of budget revenues for each type of tax and fee. This is possible through the use of effective mechanisms to influence the interests of different regions, territorial communities, and taxpayers.
2. Clear legal regulation that would encourage the rational and efficient use of budget funds. Double standards and the practice of "manual" management of budget funds should be eliminated.
3. Improving public procurement procedures and ensuring their transparency, with simultaneous control by the relevant public authorities and representatives of the public.
4. Increase the responsibility of those who manage budget funds to society for their targeted and efficient use.
5. A clear division of powers and responsibilities between budget spending units and public authorities, which will facilitate more effective control and coordination.
6. Establish and maintain a culture of financial responsibility throughout all stages of the budgeting process for all participants.

The above areas of work are important for ensuring sustainable economic development and a balanced state budget in the future. They will help to achieve financial stability and support the social needs of Ukrainian citizens.

To ensure the efficiency and sustainability of state budget finances, it is important to take the following measures:

1. Justification of the need to allocate financial resources in a way that is appropriate to the current situation. The new priorities should include ensuring the country's defense capability and supporting citizens in difficult war conditions.
2. Strengthening the financial and economic justification of incentives: at the stage of drafting laws on tax and customs incentives, it is advisable to pay more attention to their justification from a financial and economic point of view. The institutional capacity of fiscal policy should be strengthened, in particular by creating mechanisms to help neutralize the negative impact of the war on the economy and financial stability. This may include the introduction of special taxes, support for important sectors of the economy, and investments in military and technological infrastructure. Such steps will help avoid rash decisions and promote the efficient use of fiscal instruments.

3. Ensure financial sustainability: excessive increases in the budget deficit should be avoided without precisely identifying the sources of its financing. This will help to avoid underfunding important programs and maintain financial stability.
4. Cooperation with international partners: active cooperation with international organizations and partners to attract concessional credit financing and develop the domestic public debt market can be an important source of affordable resources to finance budgetary needs.
5. The harmonization of Ukraine's budget legislation with the standards and requirements of the European Union (EU) is an important task for Ukraine on its way to integration with the EU, in connection with Ukraine's obtaining the status of a candidate for EU membership on the basis of a decision approved on the basis of the European Commission's recommendation on June 17, 2022. At the summit in Brussels on June 23, 2022, EU leaders approved the decision to grant Ukraine and Moldova the status of candidate for EU accession (EEAS, 2023). This will expand opportunities for grants, investments, and technical assistance.

These steps will contribute to balanced and sustainable financial management, which, in turn, will stimulate the efficient use of budgetary resources at various levels of budgeting. Budget decentralization is an important aspect of the current budget policy, which aims to ensure the most efficient implementation of state functions by improving intergovernmental relations and increasing the efficiency of the budget process. One of its inherent features is the dynamic growth of the share of local budgets' own revenues (tax revenues (currently more than 90% of total own revenues), non-tax revenues, donor funds received from the EU and international organizations, etc.) On the one hand, the ratio of local budget revenues to transfers from the state budget indicates an increase in the level of self-sufficiency of local budgets and is an indicator that confirms the correctness of decision-making regarding the economic development of regions. On the other hand, the high share of intergovernmental transfers in local budget revenues indicates their importance in ensuring regional development, as well as the significant financial dependence of local governments on central government and their inability to cover expenditures for the exercise of their powers at the expense of assigned and own revenues (Lobodina et al., 2022).

Extraordinary military and pandemic challenges have had a direct negative impact on local budget revenues. In particular, the Laws of Ukraine (Verkhovna Rada of Ukraine, 2020a, 2020b) affected local budget revenues in March 2020. The Cabinet of Ministers adopted a resolution to allocate UAH 1.75 billion to local governments for measures to combat COVID-19. It was assumed that taking into account the measures taken to combat COVID-19, local budget losses could reach UAH 15.6 billion, or 5.3% of their annual general fund revenues (excluding official transfers) (Burda et al., 2020). However, these pessimistic forecasts did not fully materialize. Of course, due to quarantine restrictions, the PIT revenue plan for local budgets was not met in almost any region, primarily due to reduced employment, forced unpaid leaves, etc. However, the plan for single tax revenues to local budgets was fulfilled by 103.1%. In addition, each region recorded an increase in single tax revenues (Storonyanska et al., 2021).

The dynamics of the share of local budget revenues in the revenues of the consolidated budget of Ukraine was characterized by contradictory trends. During 2014-2018, it was constantly increasing, reaching 51.2% in 2017 and 51.5% in 2018 (in 2015 - 45.6%) (Zhalilo, 2020). However, the trend has since changed: in 2019, it decreased to 43.5%, in 2020 - to 34.2%, in 2021 it slightly increased to 34.9%, but in 2022 it fell sharply to 25.2%. Excluding transfers from the state budget, local budget revenues in 2021 amounted to UAH 351.9 billion, or almost 23% of consolidated budget revenues (in 2019 - 23.3%, in 2020 - 22.6%), and in 2022 - about UAH 400 billion, or 24.4% (Open Budget, n/d).

A comparison of the dynamics of local budget tax revenues in the pre-pandemic and pandemic periods shows that the main share of local budget tax revenues is PIT, and it increased from 59.54% in 2018 to 69.27% in 2022 (Table 3). The growth dynamics were broken only in 2021 when there was a decrease from 62.39% to 61.33%. At the same time, EPT revenues increased - from 3.30 % in 2020 to 4.52 % in 2021, which is explained by the stabilization of the economic situation, which was interrupted by full-scale Russian aggression. In the following year, personal income tax revenues increased sharply, while the EPT decreased to 3.36% (the historical minimum was in 2020, due to the shutdown of many businesses during the peak of the pandemic). The decline in EPT revenues in 2022 has a logical explanation in the cessation of business activity in the territories affected by the hostilities.

Among local taxes, the property tax and the single tax play the leading budget-forming role. The share of the former was constantly decreasing in 2018-2022 (by more than 10% in total local taxes), while the share of the latter increased by 5%. At the same time, the weight of local taxes remained stable in 2018-2021, changing from 26.24% in 2018 to 25.93% in 2021 (with a maximum of 27.20% in 2019). However, in 2022, it decreased to 21.43% (Table 3).

After the rollout of decentralization, the revenues of the general fund of local budgets grew dynamically - on average by 24.55% in 2015-2020, while transfers from the state budget to local budgets in 2019 and 2020 decreased compared to

previous years (Decentralization, 2020). In 2021, their share remained virtually unchanged, and in 2022 it decreased by almost 10% (Table 3). The share of transfers in local budget revenues in 2016-2018 fluctuated between 53% and 54% (before 2016, it exceeded 60%). Since 2019, it has been declining and in 2022 was less than 25%. The decline in transfers from the state budget is largely due to the fact that since 2020, local budgets have not made separate expenditures for the implementation of state social protection programs (Sukach et al., 2021).

Table 3. Implementation of local budgets by revenues. (Source: developed by the authors using data <https://openbudget.gov.ua/?month=12&year=2022&budgetType=LOCAL>)

Indicators	2018		2019		2020		2021		2022	
	Amount, UAH million	Share, %	Amount, UAH million	Share, %	Amount, UAH million	Share, %	Amount, UAH million	Share, %	Amount, UAH million	Share, %
Budget Implementation (revised annual plan)	562 415.7	99.2	560 527.9	98.4	471 479.9	98.2	580 699.1	100.64	555 097.0	93.71
Tax revenues	232 532.9	41.35	270 545.8	48.3	285 571.5	60.57	346 713.2	59.71	393 460.6	70.88
Non-tax revenues	28 027.4	4.98	26 105.0	4.66	21 462.5	4.55	27 183.0	4.68	22 041.1	3.97
Income from capital transactions	2 143.4	0.38	2 928.8	0.52	3 473.0	0.74	3 462.2	0.60	2 275.9	0.41
From public authorities	298 939.7	53.15	260 302.0	46.44	160 177.1	33.97	202 733.2	34.91	136 753.7	24.64
From the European Union, foreign governments, international organizations, donor agencies	94.2	0.02	44.3	0.01	146.3	0.03	36.0	0.01	223.3	0.04
Special purpose funds	678.1	0.12	601.9	0.11	649.4	0.14	571.3	0.10	342.3	0.06

Let's consider local budget expenditures by functional classification during the same period for which revenues were analyzed (2018-2022) (Table 4). Expenditures on general government functions, which include the maintenance of local authorities and local self-government bodies, increased from UAH 28,591.91 million (5.01%) to UAH 46,469.1 million (9.60%), with a rapid increase in 2020 - by 2.40 percentage points, and in 2022 - by 1.53 percentage points. Expenditures on defense were not made by local budgets, even in 2022. Expenditures on public order, security, and the judiciary in 2018-2022 ranged from UAH 1149.6 million (0.20%) to UAH 1833.7 million (0.38%), but in 2022 increased to 2.29%, or UAH 11,108.3 million, which is quite logically explained by the situation related to the Russian invasion.

Table 4. Implementation of local budgets by expenditures. (Source: developed by the authors using data <https://openbudget.gov.ua/?month=12&year=2022&budgetType=LOCAL>)

Indicators	2018		2019		2020		2021		2022	
	Amount, UAH million	Share, %	Amount, UAH million	Share, %	Amount, UAH million	Share, %	Amount, UAH million	Share, %	Amount, UAH million	Share, %
Budget Implementation (revised annual plan)	570 577.6	93.19	566 248.6	92.66	478 108.0	91.50	569 428.2	91.85	484 295.2	77.67
General governmental functions	28 591.91	5.01	34 914.8	6.17	40 969.4	8.57	45 962.8	8.07	46 469.1	9.60
Public order, security, and the judiciary	1 149.6	0.20	1304.6	0.23	1 833.7	0.38	1 739.7	0.31	11 108.3	2.29
Economic activity	77 160.5	13.52	81 854.2	14.46	93 925.6	19.65	112 360.3	19.73	61 065.9	12.61
Environmental protection	3 000.8	0.53	3 413.5	0.60	4 197.9	0.51	2 420.4	0.43	512.5	0.11
Housing and communal services	30 048.5	5.27	34 379.2	6.07	32 125.9	6.72	56 730.5	9.96	40 631.4	8.39
Healthcare	93 229.8	16.34	89 816.2	15.86	50 865.9	10.64	33 105.2	5.81	31 008.0	6.40
Spiritual and physical development	18 885.9	3.31	21 583.1	3.81	21 884.5	4.58	27 388.0	4.81	22 584.7	4.66
Education	165 706.1	29.04	187 099.8	33.04	199 425.8	41.71	249 077.4	43.74	232 250.4	47.96
Social protection and welfare	145 498.0	25.50	103 158.1	18.22	23 999.2	5.02	28 067.8	4.93	21 991.3	6.03
Intergovernmental transfers	7 306.2	1.28	8 725.01	1.54	10 658.0	2.23	12 576.1	2.21	9 465.6	1.95

As for expenditures on economic activity, they grew steadily in 2018-2021, from UAH 77,160.5 million (13.52%) to UAH 112,360.3 million (19.73%), but in 2022 they decreased by 7.12 pp to UAH 61,065.9 million. Furthermore, in the year 2020, there was an increase of more than 5 percentage points in response to the dire need to stimulate economic activity amid the imposition of quarantine measures. These measures were enforced to contain the spread of COVID-19 and persisted until February 24, 2022, with varying degrees of stringency. Ultimately, the quarantine was lifted on July 1, 2023. The majority of expenditures were for transportation, which fluctuated at around 50% during the analyzed period.

As for health care, in 2018-2019, expenditures on it amounted to about 16%, while in 2020 they decreased by more than 5 percentage points, and in 2021 by more than 4 percentage points. This was due to the continuation of health care reform and the introduction of secondary-level financing from the state budget through the National Health Service of Ukraine (NHSU). In 2020, the NHSU spent UAH 89.5 billion under the program of state guarantees of medical care for the population. At the same time, according to the Accounting Chamber, in 2020, UAH 10.3 billion (2.2% of total expenditures) was spent from local budgets on measures related to the fight against COVID-19 (Burda et al., 2020).

As we can see, Ukraine today faces problems that require immediate solutions - it is about minimizing the consequences of pandemic and military crises. There is a need to review budget programs that should be aimed at ensuring the country's socio-economic development. In order to exercise effective control over the use of budget funds and optimize their efficiency and targeting, it is recommended that spending units structure their programs by subprograms. This approach will streamline the functions of spending units and provide a more structured framework for budget management.

DISCUSSION

Prospects for further research on this issue are seen in the development of a doctrinal model of the draft Strategy for the Development of Public Financial Management for the Medium Term until 2030, which should be based on a holistic integrative model of the system of rule-of-law principles and sectorial legal frameworks. One of its components should be a vector for improving the tools of expenditure reviews for their better integration into the budget process, both methodologically and politically, with the components and financial indicators approved accordingly. In particular, the program document should provide for the development of action plans by the management bodies of subordinate business entities to minimize the major fiscal risks associated with the activities of such enterprises, the development of their own domestic indicators for evaluating budget programs based on OECD practices and procedures, which will ultimately contribute to the implementation of a unified state policy to improve the socio-economic and investment climate of the state. For each of these areas, it is necessary to define strategic goals to be achieved by the main spending unit in the country, as well as quantitative and qualitative indicators that will testify to their achievement. Broad involvement of budgeting participants, academics, and the expert audience in the professional discussion will help shape the 2030 Strategy, which will form the basis for sustainable and inclusive development of the national economy as a whole and improve the well-being of all Ukrainian citizens.

Given the surplus of local budgets (over UAH 70 billion in 2022 and the trend continues in 2023), it is advisable to enshrine the mandatory inclusion of defense expenditures in them for the period of martial law. Thus, draft law No. 9531 provides to include in the list of expenditures made from the budgets of the village, town, and city territorial communities the purchase of goods, works, and services in the interests of military units of the Armed Forces of Ukraine located in the territory of the respective village, town, city territorial communities, in accordance with the proposals of military units approved by the Ministry of Defense of Ukraine; implementing local programs to increase the state's defense capability and facilitate logistical support for the Armed Forces; establish that such expenditures should be at least 10% of the total annual expenditures from the budgets of village, town, and city territorial communities (Verkhovna Rada of Ukraine, 2023e). At the same time, we believe that it is inappropriate to set such a high percentage rate, as the budget surplus may turn into a deficit, which will lead to difficulties with its implementation. It would be appropriate, for example, to determine that such expenditures are made in an amount not less than the amount required to perform national functions.

In addition, there are currently discussions in government circles about the transfer of personal income tax, which comes from military salaries, from local budgets to the state budget. This is due, in particular, to the reaction of civil society to the controversial procurement by some local authorities during the war, the reconstruction of sports and cultural facilities, etc. in 2023. The issue is undoubtedly controversial, as in some cities, including those on the frontline, personal income tax from military personnel can reach almost half of local budget revenues. To compensate for the likely losses, the Government proposes to introduce a subsidy starting in 2024 for cities and communities where the PIT is a budget-forming tax. However, the Verkhovna Rada of Ukraine has not yet supported the relevant draft law (Verkhovna Rada of Ukraine, 2023f). On the one hand, in our opinion, claims about the irrational use of local government funds are quite appropriate,

and the allocation of additional resources for defense needs during a full-scale war cannot be objected to. On the other hand, the replacement of own revenues with transfers at a time when a significant part of the state budget is provided by international partners raises concerns: won't it happen that for objective reasons there will simply be no funds for the above-mentioned subsidy, and local budgets will not be able to meet the priority needs of the community?

Therefore, to improve public financial management in the face of pandemic and military shocks, it is necessary to introduce effective mechanisms for controlling and monitoring expenditures, rational allocation of resources, and evaluating the effectiveness of budget programs through the full implementation of medium-term budget planning, ensuring transparency and openness of the budget process on open data portals, simplifying tax administration, implementing effective solutions based on Industry 4.0, involving the public in decision-making. The methodology for assessing budget security also needs to be improved to ensure a comprehensive understanding of the financial stability and budgetary system of the country, which will help to respond to emerging problems in a timely manner by implementing effective strategies to ensure the sustainability of public finances and budget security.

CONCLUSIONS

One of the main risks in public finance in the context of pandemic and military shocks is the imbalance of state and local budgets due to unstable revenues and rising expenditures. If it is necessary to finance the country's defense and social support for citizens, it is important to take into account the financing of the priority restoration of infrastructure and the return of the de-occupied territories to life. Traditional approaches to ensuring budget sustainability based on non-issue financing of budget expenditures and minimizing the budget deficit seem insufficient in the context of war. A sharp reduction in budget expenditures may have a negative social impact and affect defense capabilities. To achieve budget sustainability in the context of resource constraints, it is necessary to balance the attraction of external and internal financial resources in acceptable amounts, including financing from the National Bank of Ukraine, and to rationalize budget expenditures. Further digitalization of tax and customs administration can increase the efficiency and risk-oriented nature of fiscal control, reduce the burden of tax and customs procedures, and help ease the tax burden on the economy. It is important for the business community and citizens to have a clear understanding of the formation and spending of budget funds. This can improve tax discipline and subsequently help liberalize the tax burden. This requires improving the quality and accessibility of public services through digital transformation, unlocking the potential of decentralization, improving the system of horizontal equalization of the tax capacity of local budgets, as well as improving the quality of local budgeting and execution, and expanding the use of participatory budgets.

In addition, as a result of the realization of military risks, economic activity in some regions has ceased and the need for social support programs has increased. Since 2022, under martial law, priority measures have been taken to reorient the budget to military purposes and necessary social expenditures aimed at supporting the population and internally displaced persons, as well as ensuring the functioning of critical infrastructure. To guarantee macroeconomic stability and strengthen budget security, the government has taken several important steps, including attracting financial assistance from international financial organizations. This allowed the government to reduce the financial deficit and stabilize the economy, including financing all priority expenditures (pensions and social payments, security, defense, healthcare, and education).

The author establishes that the main factors affecting the state budget revenues under martial law in Ukraine were: the suspension of foreign economic operations; economic and business downturn (hostilities led to a significant decline in economic indicators and business activity of taxpayers, which affected budget revenues); migration; destruction of infrastructure and production; and changes in tax policy.

The study showed that the military conflict has led to significant losses in budget revenues at all levels. These financial stresses were caused by changes in legislation, among other things: suspension of the automatic VAT refund system; transition to a simplified system of taxation, accounting, and reporting, with mandatory payment of a single tax at a rate of 2%; raising the VAT rate to 7% and reducing the excise tax on major types of fuel; exemption from taxation of goods imported into the customs territory of Ukraine by taxpayers, as well as vehicles imported by citizens, and import duties on imports of goods by enterprises; exemption from taxation of transactions involving the import of defense goods into the customs territory of the country, etc.

Budget security indicators currently show insufficient sustainability of public finances, which leads to systemic internal threats and reduces the country's ability to withstand external risks. Such consequences may include low purchasing power of the population, reduced lending to the economy, unfavorable investment climate, and deterioration of the outlook for global commodity markets, and negative forecasts for the global economy in the coming years. It is likely that the situation will not change in the near future, as the reasons for the deficit of the state budget and general government sector remain

unresolved. These include the ongoing military conflict, which requires additional financial resources for the defense sector; a deep economic recession that requires a reorientation of economic ties; and the existence of social and other obligations of the state, including meeting the energy needs of the population, paying pensions, etc.

Despite the complexity of the socio-economic situation, the impact of decentralization has been positive for local budgets. Even with constant external pressure, we can talk about the powerful effect of the formation of ATCs, the expansion of tax and spending powers of local governments and local authorities, etc. This is confirmed primarily by the stable base of local budget revenues, which has not changed significantly during the crisis. At the same time, the implementation of post-war reconstruction projects will depend heavily on the financial capacity of communities. Ways to strengthen it include: developing specific investment proposals and projects based on the community's immediate interests; finding partners among neighboring communities, NGOs, and business associations, and establishing cooperation with the government. Combining efforts will make it possible to implement projects that will affect a wider target audience and increase the number of funds raised; it is advisable for the state to provide communities with the opportunity to influence the administration of local taxes, as they are most motivated to increase their own financial capacity and at the same time, the distance between local governments and taxpayers is minimal.

The study emphasizes the need to develop a National Revenue Strategy for the period from 2024 to 2030, which the Ministry of Finance has prepared as part of the IMF's structural adjustment. Currently, the Government of Ukraine, the State Tax Service, and the IMF are consulting on changes to the tax system. The main goals of these changes are to ensure the national competitiveness of the tax system in comparison with other countries and to create a tax model that will facilitate the effective fulfillment of tax commitments.

To ensure the sustainability of the local and state budgets, it is proposed to implement a number of measures, namely: to justify the need to allocate financial resources in a manner consistent with the current situation; to develop the institutional capacity of fiscal policy, in particular by creating mechanisms to help neutralize the negative impact of the war on the economy and financial stability; to ensure financial sustainability in the context of avoiding excessive increases in the budget deficit without accurately identifying the sources of its financing. Implementation of a comprehensive, strategic policy and implementation of best practices for the rapid tracing, freezing, and repatriation of stolen assets, recognition of foreign asset confiscation orders, and return of assets that have been transferred to foreign jurisdictions will help strengthen the country's financial security. This will help reduce the negative impact of the shadow economy on Ukraine's economy and financial stability.

ADDITIONAL INFORMATION

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CONFLICT OF INTEREST

The Authors declare that there is no conflict of interest.

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ТРАНСФОРМАЦІЯ БЮДЖЕТНОЇ СИСТЕМИ УКРАЇНИ В УМОВАХ НАДЗВИЧАЙНИХ ВИКЛИКІВ ТА ЗАГРОЗ

Повномасштабні воєнні дії мали значний вплив на бюджетну систему через збільшення витрат на оборону, відбудову та гуманітарну допомогу вразливим групам населення, що позначилось на накопиченні бюджетних ресурсів. У статті розглянуто вплив надзвичайних викликів та загроз на національну бюджетну систему, зокрема на обсяг і структуру дохідної та видаткової частин бюджету, зростання державного боргу й бюджетного дефіциту, зміну регламентування сфери державних фінансів, потенціал фінансових можливостей регіонів. Мета дослідження полягає в науково-практичній оцінці проблемних аспектів, пов'язаних із трансформацією бюджетної системи; окресленні шляхів залучення фінансових ресурсів, котрі можуть бути використані з метою розподілу та перерозподілу на виконання функцій держави; визначенні ключових сфер впливу надзвичайних загроз і викликів на бюджетну систему країни та пріоритетних заходів і напрямів бюджетної політики у воєнний період.

Автори дійшли висновку, що стратегічні та магістральні напрями розвитку України потребують удосконалення в стратегії управління державними фінансами та фінансово-економічної безпеки в рамках реалізації Меморандуму про економічну та фінансову політику МВФ. При цьому досліджено відповідні законодавчі зміни до державного бюджету 2023 р., які відповідають потребам України, проаналізовано реалізацію першого підготовчого етапу з розробки Національної стратегії доходів. Автори наголошують на позитивному впливі децентралізації на місцеве самоврядування та фінансову стійкість місцевих бюджетів. Запропоновано розширити повноваження громад через моніторинг щодо виконання місцевих бюджетів. У контексті потреб оборони розглядається можливість включення до місцевих бюджетів видатків на оборону під час воєнного стану.

Ключові слова: фіскальна стійкість, фінансова стабільність, бюджетна система, бюджетна безпека, місцевий бюджет, податки, Стратегія національних доходів (НСД), державні фінанси, надзвичайні виклики та загрози

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