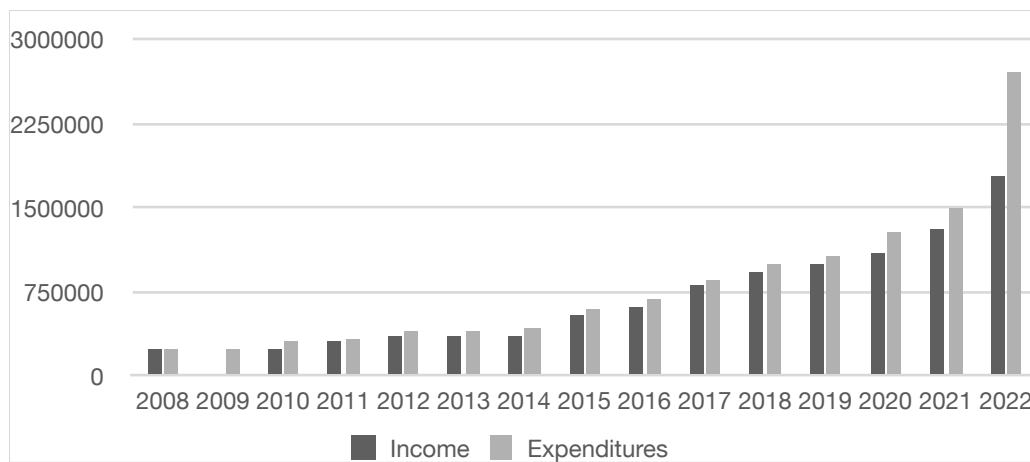


effect on the economy in small amounts, it predominantly leads to negative outcomes such as reduced spending on social functions of the state in the future and decreased capital expenditures. Budget deficits also result in increased public borrowing and rising national debt. In some cases, chronic government deficits can lead to default. Therefore, managing the budget deficit is crucial for a stable economy, responsible fiscal policy, and the welfare of the population.

## 5.2. Analysis of the expenditures of the state budget of Ukraine

For many years, the budget system of Ukraine has been characterized by instability and constant reforms, budget deficits, a significant amount of national debt, and imperfections in intergovernmental relations (Figure 5.1). In 2014-2015, after a major budget crisis triggered by military actions in the east, reforms in the budgetary system and relations began.



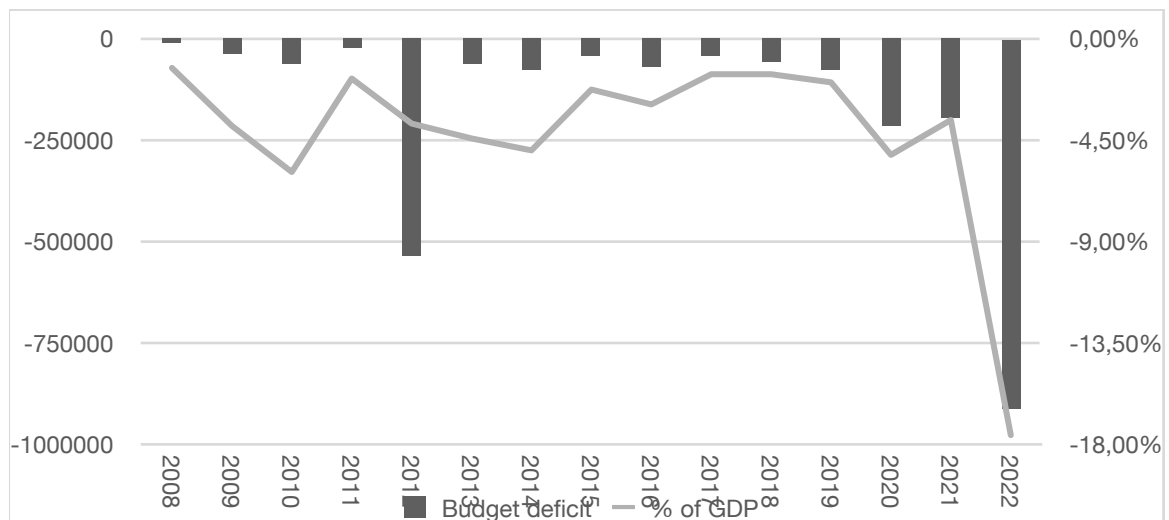
**Figure 5.1.** Amount of budget income and expenditure, million UAH

*Source: developed by authors based on the data [10]*

They included gradually reducing the share of government spending in GDP, implementing medium-term budgeting, improving program-based budgeting methods, maintaining a relatively low budget deficit using fiscal rules, and effectively implementing decentralization reforms. These reforms elevated Ukraine's budgetary relations to a qualitatively new level of efficiency and transparency. However, they were significantly undermined by the pandemic and full-scale war. The shift in

budget policy priorities led to the complete or partial pause of most budgetary reforms. Nevertheless, the budgetary system remains one of the key mechanisms for meeting military and social needs during the war and for the successful post-war reconstruction of Ukraine.

It can be observed the existence of the budget deficit of the state budget of Ukraine for many years (Figure 5.2.). It is obvious, that it increased in the periods of economic instability. The increase of budget deficit in relation to GDP occurred after the financial crisis 2008-2009, also after first invasion of Russia in 2014, during pandemic, and the highest deficit can be observed after the full-scale war in the years 2022-2023.



**Figure 5.2.** Deficit of state budget of Ukraine, million UAH

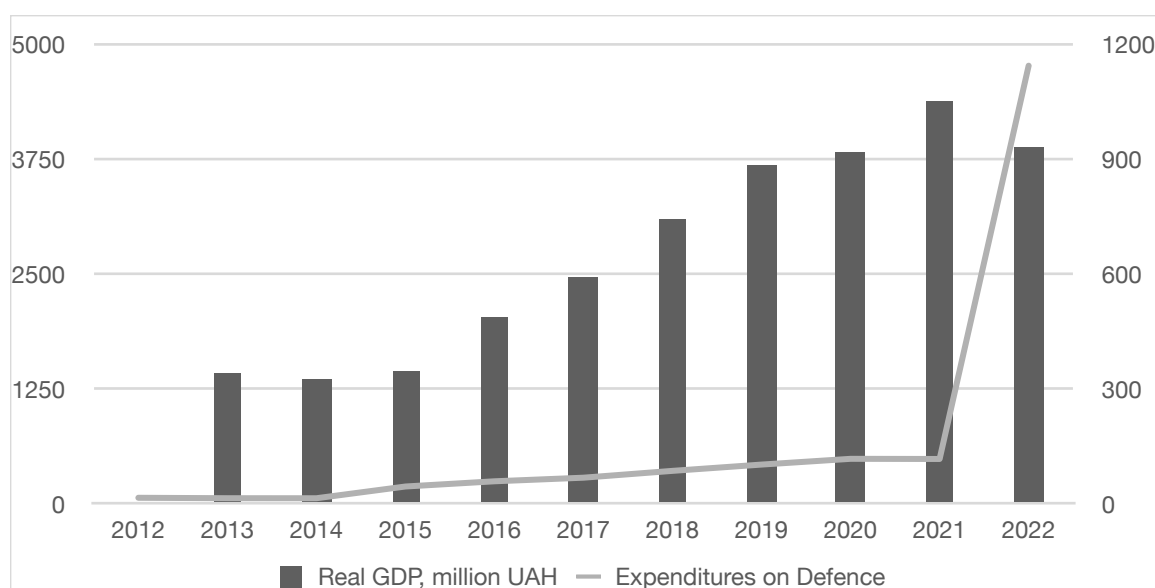
*Source: developed by authors based on the data [10]*

In 2022 the budget system of Ukraine has faced serious incur, as the economy and society together. The main consequences of full-scale invasion of Russia were: the decrease of the budget income, increase of budget deficit, high relying of the budget expenditures on the international help and loan agreements with the partners, structural change of the expenditures, rapid increase of expenditures on defense and security, usage of new debt instruments- war bonds, increase of burden for the local budgets. In this complicated external and internal conditions, it became impossible to use budget rules for the norming of the budget system. Instead, it raised the necessity to adapt fast to the external environment and conditions and search the possibilities to finance expenditures of the state for the urgent needs of war and society.

Nowadays the main reasons of disbalance in the budget system of Ukraine are considered to be dependance on international help and non-stability of political situation. Because of war the structure of the budget income does not influence positively the economic development, and the amount of resources for the education, science, reconstruction of infrastructure and reform is not enough.

The problem of the budget system is that, because of the marital law and reorienting the economy to provide the needs of defence, it occurs a full or partly stop of budget programs and reforms.

In 2022 expenditures of the state budget increased for 1214,2 billion UAH, that is 81,4%. Such increase is connected with the necessity of additional finance of the military forces, including the modernization of equipment, preparation of military and operational costs. Increase of expenditures on defense in 2014 happened in 2014. The lowest amounts were indicated in 1993, when the expenditures on defense amounted only to 0,3% of GDP. Expenditures on defense in 2022 increases for 607,98%, and their part in the structure of expenditures increased for 33,69 points in comparison with the year 2021. According to the macro prognoses of the budget for 2023 the amount of expenditures on defense reached 18,2% of GDP or 42,3% of general amount of expenditures (Figure 5.3).



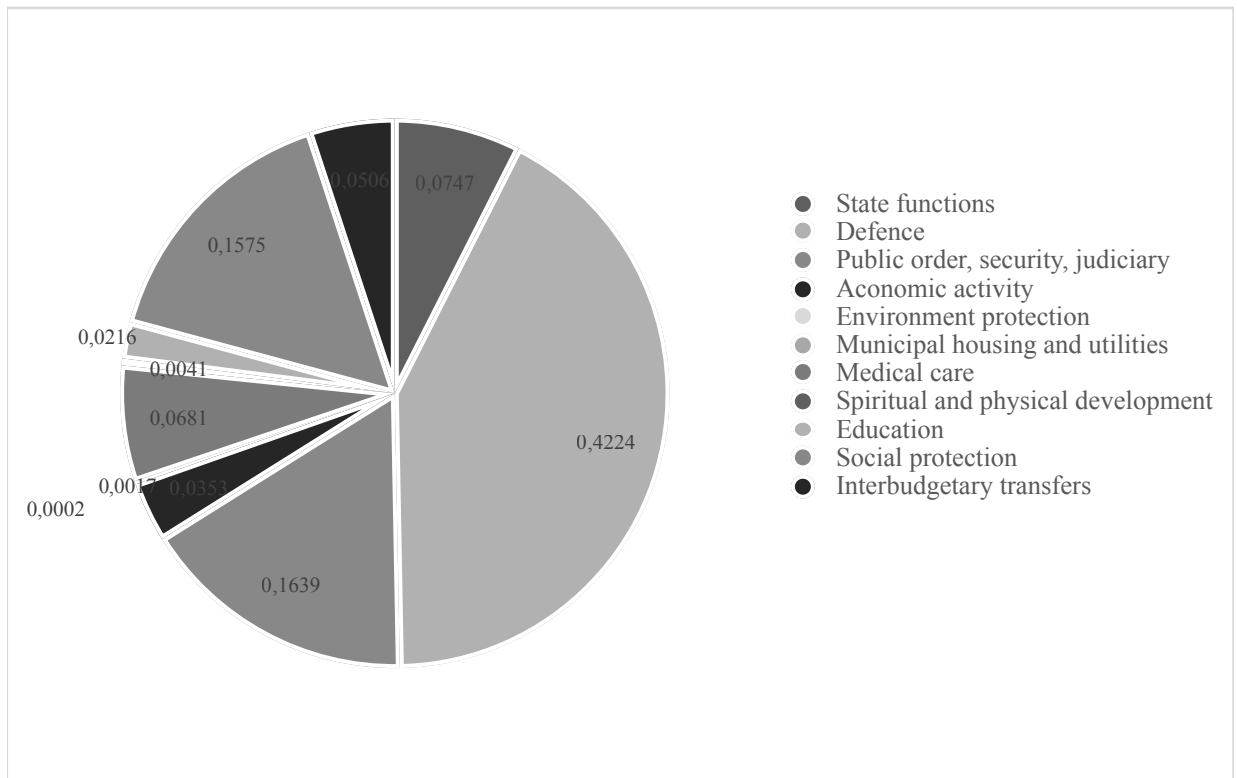
**Figure 5.3.** Dynamics of real GDP and expenditures on defense in 2012-2022, billion UAH

*Source: developed by authors based on the data [11, 12]*

Before traditionally the highest part of expenditures was the social protection, but in 2022 this part took the third place. The first one was defense, the second one - expenditures of the security and judicial branch. Other important spheres were the state functions, medical care, economic activity, but their place in the total structure has decreased because of rapid growth of the expenditures on defense.

As we can see from the Figure 5.4. the highest part in the structure of budget expenditures in 2022 took expenditures on defense, security and judiciary.

The sphere of defense is the priority one in the expenditures. It is worth noting, that since July 2023 it increased the capital expenditures, they were used for the infrastructure projects and repairments, preparation to winter [14].



**Figure 5.4.** Structure of expenditures in 2022, %

*Source: developed by authors based on the data [13]*

War caused the heavy burden for the state budget. In these conditions it is obvious that increased the expenditures on defense, security. In the conditions of limited own resources and negative influence of war on the business in the country, international help has a crucial role, which is particularly important for providing the state functions and protection from Russia. For next year, the state budget was

planned with a focus on continuing the fight against the armed aggression and supporting the recovery and reconstruction of critical infrastructure. The revenue of the State Budget for 2023 was foreseen at UAH 1,330 billion, with adjustments made to accommodate more optimistic expectations regarding financial support from international partners. The budget deficit in 2023 has increased, and it was planned to be financed primarily through external borrowings. Overall, the Ukrainian government's approach to budgeting in these years reflects a balance between managing immediate crisis-related needs and maintaining the long-term stability and recovery of the economy.

### **5.3. Assessment of the sources and magnitude of income in Ukraine's state budget**

It is important to pay attention, that in 2022 the income of the state budget amounted to 115,1 % of the approved by the Parliament in the beginning of the year, the excess amounted to 234 billion UAH [12]. In the conditions of war government was searching for new income.

At the same time, the amount of the biggest article of income- tax income in comparison to 2021 decreased for 14,21%. If the part of tax income in the general structure of the budget amounted to 85% in 2021, so in 2022 it accounted only 53%.

In the revenue structure, a significant portion was placed by income from foreign governments as Ukraine actively searched support on the international stage in the conditions of critical uncertainty. Revenues from official transfers by the EU, foreign governments, international financial institutions, and donor organizations increased approximately 428 times: from 0.8 billion UAH in 2021 to 342.5 billion UAH in 2022 (Figure 5.5).