

Additionally, it's important to make OVDP more accessible to businesses and the public. This process takes time as the willingness to finance the government arises not only from the yield level of bonds but also from the trust in the government. Nevertheless, considering that the yield on OVDP is higher than that of deposits, this instrument could become quite competitive in the retail financial market.

#### **6.4. Strategies for enhancing the management of Ukraine's public debt**

In the first year of the war, a significant number of measures was already taken in the direction of fundraising, including external grant-based and concessional funding, expanding cooperation with the IMF, and with the governments of various countries.

It should be noted, that during the war, debt management had a different character. The emphasis shifted to the volume of financing rather than its terms because the country's survival depended on the amount of funding available. However we should remember, that the government debts should be repaid, and it is important the conditions of borrowings.

In this context, it is important to analyze how the debt policy aligns with the Medium-Term Strategy for Public Debt Management for 2021-2024, which was adopted before the full-scale war began. The primary objectives of the Strategy were the following: increasing the share of the government debt in the national currency; extending the average term to repayment and maintaining the smooth schedule of government debt repayment; attracting the long-term concessional financing; continuing the development of relationship with investors and further improvement of the debt management policy.

Increasing the share of debt in the national currency is crucial for minimizing the currency risk. Indeed, in 2021, this goal was pursued as the share of debt in the local currency increased from 35% in 2020 to 37%. However, the war made its changes, and due to limited financial resources in the domestic market, a larger

portion of funds was sourced externally, meaning they were acquired in foreign currency.

Thus, it can be noted the non-fulfillment of the first goal of the public debt management strategy till now. According to the Budget Law for 2023, external and internal borrowing amount at a ratio of 95% to 5%, indicating a further decline in the share of domestic currency in the debt structure. This trend is highly negative as it implies that in the event of hryvnia devaluation, both the debt volume and the debt burden would increase sharply. For instance, projecting a rise in the dollar exchange rate to 40 hryvnias per dollar by 2024 would increase the debt burden by 5 percentage points.

Following the IMF's requirements for EFF, maintaining a fixed exchange rate in the short term was optimal. However, the next step involves a gradual transition to a floating exchange rate regime and adopting a classical inflation targeting framework. As a result, the fixed exchange rate was changed to managed floating in October 2023. The reaction of the market and citizens was positive, and it was even observed some revaluation of the currency. But in the terms of high dependence on international financing and on the conditions and outcomes of war, the currency risk is high. In this context, it becomes important to attract more government borrowings in the national currency.

National Bank of Ukraine has already launched certain administrative incentives in the form of the possibility to form 50% of reserves using specific issuances of government bonds since January 2023. This has reflected in the amounts raised for the budget through placements of domestic government bonds in the primary market: in the fourth quarter of 2022, 52 billion UAH was raised, while in the first quarter of 2023, it increased twofold to 111 billion UAH. Certainly, another factor that boosted demand for government bonds was the increase in their yields: in the fourth quarter of 2022, the average yield was 16%, rising to 19% in the first quarter of 2023. In December 2023 the yields decreased to 16,5%-18,5% following the decrease of central bank rate.

Up until April, there was present a factor that somewhat restrained banks' demand for bonds. It was the availability of more lucrative deposit certificates with a

rate of 23%. However, currently, the National Bank has lowered the rate on standard overnight deposit certificates. Thus, the National Bank of Ukraine has the aim to stimulate an increase in deposit rates for the public. As for the reduction in the overnight certificate rates, this helps to make government bonds more competitive in the financial market. These actions had indeed bolstered banks' demand for government bonds.

Regarding the second goal of managing the government debt, extending the average maturity and ensuring a uniform repayment schedule, it has been successfully achieved. By the end of 2020, the average maturity was 8.07 years, while as of March 2023, it stands at 10.48 years. The primary extension of the average maturity occurred in 2022, due to the war, predominantly through the extension of external debt.

Because of the uncertainty regarding the duration of war and the post-war recovery period when the country won't have available funds to repay debts, attracting long-term financing became a necessary condition. Due to the high risks involved, the Ukrainian government indeed made efforts to attract long-term financing from international partners. However, compared to 2020, the payment schedule for the state debt has become less evenly.

Even more relevant is the path of restructuring the debt obligations, which has already been partially implemented and is planned to continue. External creditors need to understand that the capacity for servicing debt, both for the government and businesses, is limited. Hence, restructuring is more advantageous for all parties involved than insolvency and default.

The most crucial problem in the context of debt management remains its currency structure. During the war, the share of foreign currency debt increased, and further growth is anticipated in next periods. This increase creates currency risks that grow when transitioning to a floating exchange rate regime. To minimize these risks, it is necessary to attract more funding in the local currency on the domestic market. The primary targets should be commercial banks, as well as individuals and legal entities. The NBU is actively working towards stimulating commercial banks to invest in government bonds.

From a purely economic standpoint, post-war recovery can signify a return to pre-war levels of GDP and employment. It is worth considering post-war economic recovery as an achievement of socio-economic well-being, including food security, healthcare, housing, education, and a social security system for all citizens of the country. This involves developing an economic strategy with the aim to rebuild infrastructure, create jobs, open markets, run legal and regulatory reforms, establish the foundation for international trade and attracting investments.

Researchers note that financial assistance can be effective and crucial for post-conflict economic recovery. When properly managed, aid does not undermine growth or competitiveness; on the contrary, it can be a significant factor in sustaining a country's development and high-level growth. This requires external partners to provide timely and predictable aid disbursements, as well as expedited and deeper debt relief. Simultaneously, governments of countries in recovery periods should use the resources provided to restore and reform institutional capacities [44].

The significant impact of the Marshall Plan on Western Europe indicated the importance of targeted international aid for restoring production capacities and fostering stable economic growth. The assistance accounted for approximately 1% of the gross national product of the United States annually during the period from 1948 to 1952. The Marshall Plan aided in the restoration of production capacities in Western European countries, improved internal price stability.

According to the estimations, the recovery of economy after the Second World War was faster, than after the First World War. Recovery of production in Western Europe happened during the 3 years and export returned to pre-war levels in 4 years. At the same time, it is worth noting, that the level of consumption was much slower in recovery and showed the pre-war results only in 1950s and the per capita GDP achieved the pre-war levels only in the mid of 1950s.

Those countries, where the war did not take place, including USA, Canada, neutral European countries had rapid economic growth within two years after the Second World War [45].

Jacek Prokop and Eva Baranovska-Prokop have researched the impact of foreign borrowing on the example of Poland. Foreign borrowings are considered

beneficial for a country if they help to develop investments that generate more value than the overall debt incurred. The authors examined a simplified version of a macroeconomic model to analyze Poland's use of external borrowing in the 1970s, during the post-war recovery period of Central and Eastern Europe.

For the first time after World War II, Poland, the leading country in the socialist bloc, opened its doors to Western economies, increasing external trade and borrowing to finance the import of modern technologies and investments. The study's findings affirmed the position that using external sources to finance economic growth in Poland was quite effective. The impact of external loans on GDP was positive and exceeded the cost of the debt [46].

Another reason for the importance of post-war economic recovery is the reduction of the risk of repeating conflicts. Key factors directly increase this risk include low per capita income, weak economic growth, socio-economic inequality, lack of employment opportunities, and significant valuable natural resources.

Policies for economic recovery should aim at rapidly expanding employment, reducing social inequality where it threatens stability, and creating a stable fiscal foundation for the state.

John Eriksson, and other economists analyzed the World Bank's impact on post-conflict reconstruction in countries. This influence manifested in various forms, ranging from comprehensive packages of credit and non-credit services to more modest strategic support, and targeted focus on specific aspects of recovery, such as economic stabilization or transitioning to a market economy.

The projects of World Bank for post-conflict reconstruction typically encompassed all sectors of the economy. Out of the \$6.2 billion in loan volumes, the majority, 32.7 percent, was allocated to support so-called multi-sector projects. This included borrowings aimed at stabilizing the macroeconomic situation, loans for technical assistance, and overall reconstruction or emergency recovery projects, incorporating several economic and social components with the aim to provide rapid assistance for the most pressing needs. Out of nearly \$2 billion in multi-sector lending, more than half were loans for structural reform or budgetary support.

Multi-sector projects also included a demining project carried out in Bosnia and Herzegovina. Nearly 10 percent out of \$6.2 billion were allocated for funding agricultural projects, while 9 percent was designated for transportation projects (reconstruction of highways). The urban development sector received 8.5 percent of post-conflict reconstruction aid, with the largest of these loans of \$175 million was given for the reconstruction of Beirut.

The authors emphasize that a swift transition to macroeconomic stability in post-conflict conditions is crucial for economic recovery. Stability in this case was determined by the current level of inflation. The assistance of World Bank in rebuilding physical infrastructure, including political and institutional aspects, was the strongest area of activity, while fiscal and other structural economic reforms did not have significant positive impacts as they were untimely. Each case was considered individually, and loan programs were developed considering the scale of destruction and the required funding [47].

War deeply impacts economic development, including significant damage in infrastructure, loss of human capital, investments, resources, and social dynamics. Countries without war typically have more favorable conditions for economic development, benefitting from the absence of the mentioned problems. However, with a series of measures and international support, post-war economies can recover and eventually achieve sustainable development. Post-war economies often receive significant international aid and cooperation in the form of humanitarian assistance, funds for reconstruction, and technical support. International organizations, donor countries, and non-governmental organizations play a crucial role in supporting post-war recovery and development

The proposed measures can be important for the economic development in the peaceful times and in the post-war period. With the aim of economic development, the following measures should be taken:

- Strengthening political stability through reforming and fortifying the rule of law, ensuring the independence of the judicial system, and reducing corruption. Since political stability is a fundamental requirement for economic growth, the Ukrainian government should prioritize this step. It will contribute to creating a more

transparent and secure environment for businesses, investors, and the public. During a state of war, discussing the stability of the political situation might be challenging, but it doesn't imply delaying legal institution reform in Ukraine.

- Encouraging foreign investment can provide access to new capital, technologies, and entry into new markets, subsequently promoting the development of the Ukrainian economy. The Ukrainian government should focus on creating a business-friendly environment that encourages foreign investment by simplifying legislation, reducing taxes, and providing incentives for foreign investors.

In July 2022, the platform "Advantage Ukraine" was introduced, which proposed an investment range including various sectors: defense, metallurgy, industrial complex, pharmaceuticals, logistics and infrastructure, energy, natural resources, furniture and wood processing, innovations and technologies, etc. The overall investment potential amounts to over 2,500 potential projects for implementation. The Ukrainian government promises to incentivize investments by returning 30% of investments in CAPEX, abolishing value-added tax and duties on imported equipment, granting a 10-year corporate income tax exemption, as well as implementing a special taxation system for IT businesses [48, 49].

1. Support of small and medium-sized enterprises (SMEs) is crucial for creating new jobs and stimulating economic growth. Ukrainian government should prioritize policies and incentives that encourage the development of SMEs. Such policies may include simplifying regulations, reducing bureaucracy, and providing financial and technical assistance.

In 2020, the Ukrainian government introduced a support program for small and medium-sized enterprises in response to the Covid-19 pandemic and its consequences. The reform aimed to ensure access to financing, markets, and infrastructure development for such businesses. One of the programs included in the initiative was the provision of loans at interest rates of 5-7-9% annually, which were optimized following the introduction of martial law [50, 51].

In 2021, the Ministry of Digital Transformation developed the platform "Diya.Business," which joined projects aimed at supporting entrepreneurs from the arising of an idea to the management of existing businesses. Currently, the online

portal also has a dedicated section specifically focused on supporting businesses during the war [51].

2. Supporting the diversification of export is crucial because Ukraine's economy traditionally relies on the export of raw materials such as grains or metals, which do not bring significant added value. This diversification could contribute to the growth of the gross domestic product and accelerate economic growth. According to the World Bank data as of 2021, Ukraine ranked 52nd out of 168 countries in terms of value-added industry [52].

Ukraine has traditionally been considered a raw materials supplier. However, to realize its export potential, the country faces several obstacles: lack of investment in a favorable business environment; structural issues, such as over-reliance on raw material exports and industries with low added value; trade barriers and logistical challenges that have intensified since February 24, 2022.

Ukraine should implement export promotion strategies to identify and support promising sectors with export potential. Emphasizing on research and development, technology transfer, and innovation will increase productivity and competitiveness. Simplifying trade procedures, implementing electronic customs systems, reducing administrative burdens, and improving border management will increase trade flows, reduce costs, and facilitate business operations.

There is high potential and need for the development of defense industry, aerospace industry, chemical, pharmaceutical, reprocessing food industry, clothing. Military needs stimulate the development of defense industry, but in the current conditions, further fast development is crucial. In the time of war there is an increase of demand on military production, clothing, pharmaceutical products and it stimulates the development of these branches, as we already have observed. Agricultural sector can be an important source of growth of food industry. As far as many enterprises were incurred or destroyed imported products have flown the market. But support of national enterprises is crucial and it will allow to propose to the cheaper products, than foreign one.

Big potential has the IT industry, which is the current leader of the export of services. Global changes and national risks have influenced this sector in 2023, but it

demonstrated rapid growth before the war and even in 2022. IT market has a big supply of skilled labor, who is competitive on the global and regional markets.

In the current conditions an important solution for economic growth can be also stimulation of business activity of small and medium-sized enterprises, as they are more flexible, can adapt faster to external conditions and change location.

1. Development of human capital through investments in education and healthcare can contribute to long-term economic growth by enhancing labor productivity. As of December 15, 2023, over 6 million refugees from Ukraine had been registered for temporary protection in Europe, according to the United Nations High Commissioner for Refugees [53]. The majority of those who have fled are women of working age and children. A recent UNHCR survey indicated that about 40% of Ukrainian refugees were either employed or self-employed [54]. Many Ukrainian refugees are likely to return to Ukraine after the war ends according to polls. The high level of uncertainty surrounding the future course of the conflict complicates assessing and quantifying the number of refugees who will definitively return and those who will remain in the countries where they currently reside.

The Ukrainian government should prioritize the return of its citizens to the country by enhancing access to quality education, healthcare, and professional training. It should also create programs for accessible housing for those who have lost their homes and generate new job opportunities to overcome unemployment.

2. Improving infrastructure will help create the foundation for economic growth, foster sustainable development, and enhance the country's global competitiveness. The Ukrainian government should focus on developing new infrastructure and supporting existing infrastructure by studying the experiences of European countries. This includes investing in transportation, digital infrastructure, renewable energy infrastructure, and establishing public-private partnerships to finance infrastructure development.

While aiming to enhance Ukraine's infrastructure, several issues need resolution. Among them are differences between Ukrainian railways and in the European Union, the ongoing conflict within Ukraine's territory causing continual

damage to the country's infrastructure, and the need for revitalization and modernization of routes.

3. Digitalization in Ukraine has big potential for the economic development and improving governance. Continuing to invest in digital infrastructure, fostering technical education and promoting entrepreneurship, Ukraine can position itself as regional digital leader. Ukraine uses technical education and IT talents for digitalization, which can stimulate economic growth, increases effectiveness and develops innovations during the war. It has been made a great progress in digitalization of state services, implementation of tax declarations, registration of business and public procurement. Digital platform “Diia” is a centralized platform for electronic services, which has the aim to facilitate interaction between citizen, business and government [55].

4. Ukrainian economy was highly affected by its dependence from the import of energy resources (for example, of import of gas from Russia), it has negative influence, especially in 2022. Expanding renewable energy production can strengthen energy security and foster Ukrainian energy integration with the European Union. Since the war continues international partners and Ukrainian leaders can define the projects, which will develop the energy grid through the expansion of storage capacity and joining with the system of European Union. The repairment, which are made for solving the problems of current destruction of Ukrainian electric grids, can be the basis for long-term reconstruction and development of energy sector. Coordination of donors and experience of countries and international organizations will be very important for the renewable energy sector of Ukraine [56].

Monitoring and evaluation of the progress should be crucial, as far as corruption is one of the important concerns for the society and international partners [57]. During the last years there were taken different measures to fight corruption. The special legislation regarding increasing of anti-corruption measures was adopted, there were created specialized anti-corruption institutions and increased the independence of judicial system. National anti-corruption Bureau and Specialized Anti-Corruption Prosecutor's Office are the key institutions, responsible for the investigation and prosecuting corruption cases. In 2016 the platform of electronic

state procurement Prozorro was launched, the main aim of the platform has become the decrease of corruption and simplify the state procurement. The system has shown its effectiveness in wide usage [58]. In 2015 Cabinet of Ministers of Ukraine has approved the creation of the National Agency for Prevention of Corruption, which is responsible for ensuring integrity, developing regulatory acts on the anti-corruption policy, and also coordinates international cooperation in forming and realization of anti-corruption policy [59, 60]. Also, Ukraine has asked for international assistance and cooperation in fighting corruption. Partnership with such organizations and International Monetary Fund and European Union provides support and governance in the initiatives to fight the corruption. Monitoring and evaluation of program implementation effectiveness are crucial for achieving the defined goals in development and reconstruction. It is important, that in the current conditions' society has a strong desire to changes.

There are numerous effective ways to utilize government borrowings, particularly external borrowings, for post-war reconstruction. These may include the rebuilding of infrastructure, implementation of social projects and institutional reforms, development and execution of demining projects, and the reconstruction of housing and urban areas. Emphasis should also be placed on developing local capacities and fostering cooperation with local partners while reducing bureaucratic procedures.

It is essential to understand that post-war reconstruction demands substantial time, resources, and effort, requiring the combined efforts of both the government and society, as well as support from international partners. Grants and external government borrowings can play a significant role in post-war economic development by providing necessary resources for reconstruction and stimulating economic growth. However, it is equally important to manage the risks associated with government debt, including currency risks and the potential for an unsustainable debt burden. Strategic investment in infrastructure, businesses, and citizens is essential for fostering development and rebuilding efforts.