

Since August 1, 2023, sole proprietors in the 1st and 2nd tax groups returned to paying a single tax. Additionally, the special taxation system at a 2% rate for sole proprietors was abolished; penalties were returned [30]. The only remaining exemption was the option for those in the 1st and 2nd groups to not pay the Unified Social Contribution; they pay it at their discretion.

The temporary tax exemptions for businesses were justified, but the return to the regular tax regime was necessary to provide internal revenue sources for the state and regions. Simultaneously, it is essential to create conditions for the uninterrupted operation of small and medium-sized businesses. This includes implementing a system of advisory, credit support, combined with a temporary ban on audits by regulatory bodies.

5.4. Budget deficit management and budget-balancing strategies

An important element of fiscal policy is the timely response to economic cycles, the prevention of economic crises, adherence to maximum limits for the budget deficit and public debt. Issues of medium-term and strategic budget planning hold priority importance. Formulating a long-term strategy and identifying target areas is crucial. However, given the limited budget funds, it is necessary to determine the priority areas of financing to ensure the functions of the state and the socio-economic development of the country [4]. Managing a budget deficit and developing strategies to balance a budget are crucial aspects of fiscal policy, particularly for governments aiming to maintain financial stability and promote economic growth.

In 2022, state budget revenues were exceeded by 35%, while expenditures increased even more significantly by 80.4%. This led to a considerable gap between budget expenditures and revenues, primarily due to a substantial increase in spending on defense, security, and social programs. This factor resulted in a further increase in the budget deficit. The first year of full-scale war led to the largest deficit in the last 15 years - 914,701.7 million hryvnias, which accounted for over 17% of GDP (Figure 5.13). For comparison, in 2020 and 2021, the budget deficit was 5.18% and 3.63% respectively.

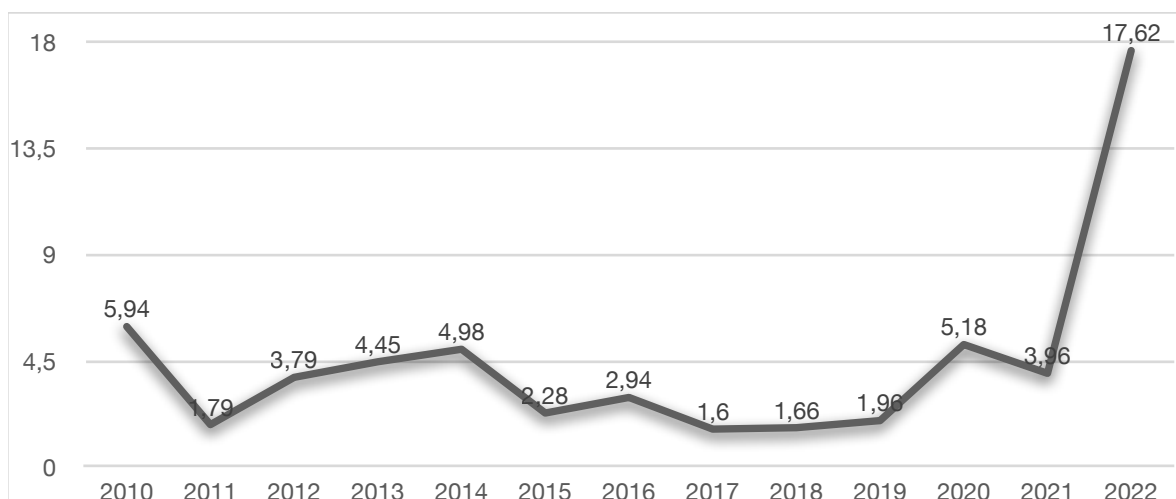


Figure 5.13. Amount of budget deficit in 2010-2022,

Source: developed by authors based on data [28]

Budget deficit is covered by the international help and issuance of state bonds. According to the estimates the deficit in 2023 was around 27% of GDP, what is higher than the previous prognoses [31]. In the project of the state budget for the year 2024 it is written, that the main part of expenditures will be devoted to expenditures on defense (21,6% of prognosed GDP) -1692,6 billion UAH, there will increase expenditures on the social protection to 469,4 billion UAH, support of the veterans of war- to 14,3 billion UAH (+7,5 billion UAH in comparison with 2023), increase of the expenditures on education, including the salaries for teachers. It is planned to increase the expenditures on the medical care to 203,4 billion UAH, and digital transformation (increase on 2,1 billion UAH to 2,5 billion UAH). Though it was planned to increase different parts of budget expenditures, the budget deficit is prognosed to decrease to 20,4% of GDP [31]. In our opinion, it is rather optimistic evaluation of the budget deficit. It should be taken into account the decrease of international help, which will influence heavily the stability of the economic system.

It is worth noting that there is planned to repay the government debt in 2024 in the amount of 606.5 billion hryvnias (internal debt - 421.6 billion hryvnias and external debt - 184.9 billion hryvnias), with debt servicing costs amounting to 420 billion hryvnias [31]. It is rather huge volume; it is second biggest amount after the defence expenditures.

The revenues of the state budget are forecasted to amount to 1 trillion 768 billion hryvnias, while the expenditures (including loans) will be around 3 trillion 355 billion hryvnias. Consequently, the state budget deficit is projected to be 1 trillion 571.5 billion hryvnias. This forecast is based on an estimated GDP growth of 4.6%, a consumer price index of 9.7% (in relation from December 2023 to December 2024), and an average exchange rate of 40.7 hryvnias per US dollar for the year [21].

It is worth noting that the identified need for international assistance to cover expenditures not related to defence and security amounts to about 41 billion hryvnias. State borrowings are planned at the volume of 2 trillion 132 billion hryvnias, including domestic borrowings of 525.9 billion hryvnias. Therefore, as we can see, there is a significant dependence on grant and credit assistance from international partners, which becomes critical in case of irregularities in aid inflows and their reduction. It's important to pay attention to the substantial volume of planned external state borrowings, which poses a negative scenario in the event of currency risks [21].

The mobilization of significant amount of financial resources to cover the deficit increased the country's debt burden and weakened fiscal stability, requiring a review of the debt policy both during and after the war. Due to high inflation, real GDP growth, and the restructuring of external and internal debts, the share of the national debt in GDP has consistently decreased since 2016. Despite the COVID-19 crisis, Ukraine managed to prevent critical debt escalation and significant financial fluctuations. But, war has changed this tendency and influenced the increase of government debt.

It was prognosed that by the end of 2023, the size of the national debt will reach approximately 6.4 trillion hryvnias, which accounts for 100.1% of the GDP. Overall, in 2023, expenditures for servicing and repaying the debt were expected to exceed 740 billion hryvnias, of which approximately half, around 326 billion hryvnias, will be paid as interest [28]. The easing of Ukraine's debt burden was made by "Memorandum of Understanding on the Suspension of Payments on State and State-Guaranteed Debt to the Group of Official Creditors of Ukraine from the G7 Countries and the Paris Club to Mitigate the Economic Effects of Russia's Aggression

against Ukraine", which will simplify the possibility of directing funds towards more priority areas for our country.

The reduction in tax revenues from some taxes has led to a decrease in the income of local communities. Simultaneously, the expenditure needs at the local level have increased, primarily in healthcare, social security, humanitarian aid, relocation, education, and housing for displaced persons. The budgetary crisis has affected all communities, especially those located in conflict zones or on occupied territories [28].

In the conditions of low credit ratings of local authorities and a lack of experience in municipal borrowing, territorial communities had limited financing opportunities. This was compounded by the financial aid from central authorities, which only approximately 50% of communities that applied could access. As a consequence of underfunding, there were cuts in expenditures for labor remuneration, communal services, and education, which in the long term pose significant risks to regional development [32].

Despite successfully managing local budgets practically deficit-free in 2022, the stability of local budgets has been disrupted, while community needs continue to grow. To simplify the budgetary processes at the local level, certain legislative changes have been introduced, such as allowing fund transfers between local budgets, suspending audit checks, abolishing the necessity of approval of expenses by local council [28].

During the war, numerous initiatives and programs were established regarding potential directions for Ukraine's development during and after the conflict. It's evident that the country's reconstruction is not possible without establishing an efficient and transparent budgetary process. Ukraine can draw upon the experiences of countries that successfully navigated the post-war reconstruction of their budgetary systems, such as Poland, Israel, Georgia, Germany, and Japan. Each strategy has its advantages and disadvantages and must be chosen based on the specific economic context, socio-political environment, and long-term goals of the country. Effective deficit management requires a careful balance between short-term fiscal needs and

long-term economic sustainability. Learning from their successes and strategies could be beneficial in shaping Ukraine's own post-war policies.

The example of Israel is usually analyzed as a case of effective state governance in the conditions of war. Israel have developed its economy despite of threats. It is well-known their focus on the development of army, medical care and education, stimulation of different innovations in the country. It is obvious, that development of the defense sector is important for the country in war, and Israel developed its own defense industry. Besides, there were used different measures in the tax system to stimulate the entrepreneurship, such as decrease of taxes, for example. Progressive system of taxation is used for the personal tax of individuals. It was made the optimization of expenditures on defense and the instrument if issuance of state bonds was used in different periods. The plan of reconstruction of Germany is widely used and researched as the example of effective usage of financial resources and relevant planning and controlling of expenditures. In Japan the war-time and post-war policy included the increase of taxes, privatization of state enterprises and limits in issuance of state bonds [28]. All the cases of reforms in different countries are important to be analyzed more detailed. It is obvious, that all conditions can be different, but we want to admit, that control of expenditures and attentive planning are crucial. At the same time the development of national business has an important role for the recovery of the economy after the war and extremely important in the conditions of war as well.

Consequently, Ukraine has the potential to both implement specific policy instruments from the experiences of the mentioned countries and to develop its unique solutions in the budgetary sphere, which will facilitate the rapid recovery of the economy.

During the war it should be formed the conception of rebuild, which will include renewal and establishment of production capacities (first of all in the defense sector), development of export, attraction of foreign investors and grantors via creation of favorable legislative base, development of budget system and formation of debt policy with the aim to decrease the debt burden.

It is obvious that the judicial system of Ukraine should be reformed. Development of digitalization helps to faster the state services and services for businesses, that is a positive element of national economy, but also needs the increase of cyber security. War needs a lot of resources, and definitely it can cause the increase of taxation, but it should be prepared and managed carefully to avoid increase of shadow economy. One of the important elements of budget system management is effective control of state budget expenditures, regulation of local budgets and keeping the priority on financing the army and development of defense industry, medical care and education.

In the conditions of war government uses bond issuance and instrument of covering the budget gaps, but it should pay attention to the servicing and restructuring mechanisms to avoid the debt crisis.

In the further post-war development of the Ukrainian economy it is crucial to pay attention to the broadening of the export potential of the country, stimulation of reprocessing branches and innovations. Development of export-oriented production will influence positively on the amount of budget income and allow to decrease the tax burden for the small and medium-sized enterprises.

High potential for the development has the defense sector, in the conditions of continuing war it is important to develop own defense sector. Considering the aggressive neighbor, it has a long-time goal, like in Israel.

It is important to use different methods to attract investors to the influenced by war regions, for example to use temporary exemption for investors investing in production from certain taxes, such as property tax and land tax, and partial exemption from income tax.

It is worth mentioning the successful example of Poland, where country divides on zones of investment activity, and on some territories tax priorities exist. In the Eastern Poland 40-70% of investments return in the way of tax incentives for some period, and the same time, the enterprises in the Western Poland do not have such priorities. That helped to stimulate economy in the particular regions. Such instruments can be used in Ukraine.

Logistics is rather important for the economic development. War have influenced on improvement of logistics and organization. Management of all connection during the war, high development of volunteer's roots have influenced positively the development of logistics. For the stimulation of export it is important to increase the international roots.

One of the important elements of budget policy should be a decrease of debt burden. It is crucial to avoid the monetization of budget, which took place in 2022, when the National Bank of Ukraine was buying the sovereign bonds. It is important to avoid the currency risk, as far as borrowing in foreign currency may have negative effect on the government debt stability in the case of devaluation of national currency. And in the conditions of war it is rather important to maintain the stability of the exchange rate. It is crucial to attract international financial resources in the form of grants or investments. Of course, this channel is limited, but there are branches in Ukraine, which can be favorable for investors even in the conditions of war, such as demining of territories or defense sector, for example.

A resultative method of attracting the financial resources can be the usage of fund raising programs, which can accumulate resources inside the country and behind it. Such attracting of resources helps to decrease the pressure on the budget. Already there is the fund raising program «United24», which attracted financial resources from more than 100 countries [37]. The particular sector on the platform is the rebuild of Ukraine.

The important condition of postwar development is the continuation of the reform of decentralization regarding the stimulation of the searches of the resource of financing, including international grants, loans and municipal borrowings. It is important the cooperation between communities inside the country and on the international level with foreign local communities.

In the context of development the state finances it is important to mention digitalization. It has also a positive effect on the decrease of corruption. Digitalization of state services has a rather positive experience and is highly appreciated by the society in the country. It is spread in the state sector, in medical care, has high usage by enterprises. Digitalization of state services has shown the increase of value and

effectiveness of administrative services for citizens. Development of the IT sector increases the export potential of the country and is one of the competitive branches of the economy. Digitalization of the defense sector is crucial in the current conditions, and has a high perspective in the future. It is also developing cybersecurity, which has become of high importance while the rapid intensifying of cyber attacks of the different branches of state authorities, banks and companies after the Russian invasion. Digitalization can be an effective instrument in the budget control process, as it can provide the society with the information about state and local budget expenditures.

After the war ends, it is crucial to implement the middle-term strategy of budget planning. The understanding of the goals of budget expenditures and its detailed planning helps to limit the ineffective usage of budget costs. Middle-term planning will allow to form the middle-term strategy, as far as strategic development is very crucial. It is important to form the list of reforms and follow it for the support of the society and development of the economy of the country. This list should include detailed information about reforms, their terms of implementation, priority, costs for implementation.

Economy of Ukraine has been highly affected by war. It is important to develop the strategy for post-war recovery now, and to make a list of reforms and changes, which can be implemented now. It is important to create the trustful judicial system. In the budget system it is crucial to create the transparent budget. The priorities for the expenditures of the budget system should be the following: defense and security, medical care, support of veterans, education, social protection.

In the postwar rebuild there is high potential for the development of the industrial sector of the economy. Industrialization is the key for the economic development and defense from Russia. Ukraine has high potential for the development of defense industry, airplane industry, pharmaceuticals, chemical industries. IT sector is a rather promising part of the economic development. Rebuild of infrastructure is crucial for the economy. And it is important to follow this with the reforms in the judicial, budget systems. Only joint efforts of the state authorities, society and international community can build the future of Ukraine.