

PUBLIC ADMINISTRATION FOR SUSTAINABLE DEVELOPMENT



**MECHANISMS AND STRATEGIES OF STATE AND
REGIONAL ADMINISTRATION IN THE CONDITIONS
OF WAR AND RECONSTRUCTION OF UKRAINE**

Mariupol State University (Ukraine)
University of Economics and Humanities (Poland)

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AND RECONSTRUCTION OF UKRAINE**

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The monograph is dedicated to the pressing issues and prospects of Ukraine's recovery after the armed conflict. The study focuses on public administration reforms aimed at strengthening the country's potential during the war and in the reconstruction phase, as well as the role of these reforms in the process of European integration. The authors examine a wide range of topics, from the organizational and legal mechanisms for engaging citizens in local governance to strategies for managing public finances in wartime. Attention is given to decentralization, sustainable regional development, crisis management in the field of water use, and the restoration of key economic sectors. Particular emphasis is placed on the analysis of women's social entrepreneurship and its impact on social processes in conflict and post-conflict situations, as well as a comparative study of migration policies in Ukraine and EU member states. This monograph represents a contribution from scholars and experts, offering a critical perspective and comprehensive approaches to addressing public administration and economic development challenges in the post-war recovery period of Ukraine. It aims to serve as a guide for policymakers, researchers, and all those involved in the process of recovery and sustainable development of the country, providing a solid foundation for long-term changes. The monograph is designed for scientists, graduate and undergraduate students who are researching these above-mentioned problems in the Public Administration scientific sphere.

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2.1. Features of public finance management in Ukraine in the context of wartime¹

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The socio-economic development of the state, the level of public welfare, and the pace of economic reforms and modernisation are contingent upon the efficacy of public finance management, with state and local budgets serving as its primary components. The adequate availability of budgetary funds constitutes the principal source for the development and enhancement of socio-economic life. However, the European prospects for the development, reformation, and modernisation of the Ukrainian economy were halted by the Russian military invasion of Ukraine and subsequent military actions, which have significantly impacted the economy and financial position of the Ukrainian state.

The implementation of budgetary indicators in the third year of the war has undergone substantial reform, considering the necessity to reorganise the budget to meet the needs of the armed forces and to disburse essential social benefits to society. Negative trends are gaining momentum, creating serious problems across all spheres of Ukrainian society, necessitating rapid responses from politicians, scholars, and practitioners. Overall, the negative phenomena observed in all sectors of Ukrainian society in recent years are attributable not only to the war, errors, and miscalculations in the national economy but also to the inefficiency of managerial actions within the public finance system.

The weakening of administrative functions and the low quality of management methods applied in the financial sector indicate that the financial system requires a fundamentally new approach to the utilisation of financial resources in terms of rational distribution and effective use. As Ukraine aspires to become a full-fledged member of European society, founded on democratic principles and a legal and socially-oriented state, the sphere of public finance is a segment of the state that necessitates new approaches to management and the search for novel ways to improve the use of budgetary funds.

In the context of the full-scale military attack on Ukraine, the ability to collect budget revenues has significantly decreased, while expenditures

¹ The author of the chapter: **Svitlana Verytelnyk**. *Doctor of Philosophy in Public Administration and Management, Associate Professor of the Department of Public Administration and Management at Mariupol State University, Kyiv (Ukraine).*

have begun to increase rapidly. This has led to a considerable imbalance in public finances and resulted in an increase in the national budget deficit, which must now be covered primarily through external sources. The exacerbation of the problem of accumulating public debt and the search for ways to reduce the debt burden on the state budget of Ukraine render this issue highly relevant and correlate with contemporary realities, requiring attention and coordinated efforts from state authorities. As financial management during wartime requires particular attention to the rational and effective redistribution of financial resources for war needs and must ensure compliance with appropriate social standards of living for the population, the study of the peculiarities of public finance management in the current situation is extremely pertinent.

Therefore, this research aims to examine current trends in public finance management and practical approaches to managing them during wartime. It is based on an analysis of issues related to the interpretation of public finance, the distribution and redistribution of budgetary funds, and elucidating the role of public finance management in the state's financial activities. Additionally, the study seeks to substantiate directions for the rational use of public finances to meet war needs and satisfy basic social needs, while identifying areas for improvement to ensure the sustainability of public finances in wartime.

Russia's full-scale invasion of Ukraine has triggered a large-scale transformation across virtually all spheres of social relations in Ukrainian society. This invasion has led to economic decline, decreased social welfare, deterioration of the economic situation, destruction of infrastructure, and a demographic crisis. To counter these challenges, Ukraine must develop new management approaches under conditions of limited financial resources, focusing on ensuring the state's defense capabilities, supporting the economy and population, and reviewing the foundations of state fund development and adaptive management. The current military reality in Ukraine has exposed a causal contradiction in creating a scientific basis for balancing state functions and roles in GDP distribution and redistribution. This contradiction emphasizes social security and protection of citizens, businesses, and material infrastructure over economic expediency and financial efficiency in the use of centralized and decentralized state funds.

Furthermore, the ongoing war has intensified uncertainty regarding national economic recovery and European integration prospects. This uncertainty complicates the implementation of adaptive public finance management, which involves a complex set of measures aimed at modifying components of the public finance system, their interrelations, and institutional support. These measures are crucial for countering wartime risks and ensuring the resilience of public finances against external threats and internal challenges.

It has been ascertained that the guarantee of progressive development for any state is the effective use of financial resources. An important task for state and local authorities is to create a self-sufficient financial system through effective public finance management. This management should ensure the formation and distribution of centralized and decentralized funds necessary for state bodies and local self-government bodies to perform their functions. In the current situation, Ukraine requires an effective public finance system that is adequate for a market economy and will contribute to achieving societal welfare goals. The development of modern society is inconceivable without the effective functioning of the fiscal system, high living standards, and social standards in society, the restoration of the national economy, and enhancement of its competitiveness. Ultimately, public finance is the means of state intervention in the economic and social spheres and its regulation². It is evident that society must be able to assess the consequences of such intervention by exercising public control. Many countries have been compelled to revise their views on the principles and mechanisms of public finance functioning to ensure that these interventions are understood and assessed by society.

Regarding the establishment and development of the financial system, it is worth noting that this process began to unfold at a rapid pace in the latter half of the 20th century, when significant transformations were observed in this sphere, and finances became a public asset. Essentially, this process is reflected in the fact that the key principles of public finance functioning are regulated by constitutional norms.

Some scholars in this field have identified issues of identification related to state and public finances, whilst others contend that the

² Shainoha, A.E. (2021). *Public finance as a component of the financial system*. Kharkiv, 101, 148-155. <https://doi.org/10.26565/2311-2379-2021-101-15> (In Ukrainian)

composition of public finances is more expansive. For instance, T. Kutsenko notes that in the context of Ukrainian decentralisation reform of power and budgetary decentralisation, it is necessary to distinguish two elements in the structure of public finances corresponding to contemporary Ukrainian practice, namely governmental and local finances. The researcher highlights that certain components of public finances are still in their nascent stages and have not yet fully realized their potential as key elements. These include public finances that establish relations between public-private partnership entities, form the financial component of municipal entities (particularly specific communities), and aim to provide them with the necessary financial autonomy in light of ongoing budgetary decentralisation reforms³.

The modernisation of the public finance system and the implementation of new management models are based on the introduction of best practices used in the market sector, i.e., in private business, and the development of the state apparatus in the economy. It is expedient to highlight the key principles of new models in public finance management. These include the restructuring of state power and decentralisation, privatisation and reduction of the public sector's economic share, and programming of state economic policy for regulating institutions and differentiating economic functions. Additionally, these models emphasise personal responsibility of state structure heads for performance results, flexibility in civil servant conditions and remuneration, implementation of business practices in financial resource management, and orientation of state goods and services towards consumer needs⁴.

Therefore, to demonstrate an approach that allows for the analysis of effective financial management, it is necessary, first and foremost, to define the essence of this concept, taking into account scholars' approaches to interpretation. The most common definition is provided by L. Foksha, in which the public finance system is presented as a set of closely interrelated centralised and decentralised funds that maintain relative independence⁵.

³ Kutsenko, T.F. (2016). Public finance in Ukraine: content and structure considering modern development trends. *Economy and State*, 6, 62-66.

⁴ Musgrave, R. (1959). *The Theory of Public Finance: A Study in Public Economy*. New York: McGraw-Hill Book Company, p. 628.

⁵ Foksha L.V. (2014) Publichni fondy: ponyattya, oznaky ta pravova pryroda [Public funds: concepts, features and legal nature]. *Scientific Bulletin of the International Humanities University*, 10(1), 162–164. (In Ukrainian)

However, in our view, doubts may arise regarding the reliability of this definition, as there exist public funds that are not subject to management. M. Karlin presents a generalised interpretation of public finances as a combination of state and local finances, as they are jointly used by the population at both state and local levels⁶.

In our opinion, this understanding of finances is considered overly simplistic, as it does not take into account management aspects that must necessarily be present in the process of formation, distribution, and utilisation of finances. It is worth noting the research of scholars on the role of the state in the use of public finances in the new military reality and the latest paradigm of their fiscal space, considering the factor of security and resilience in the context of external threats and internal challenges to Ukraine⁷. Among foreign authors, one can mention German scholars who defined the essence of finances as a combination of budget revenues and expenditures⁸, whilst J. Stiglitz highlighted the interrelation between state functions, the financial system, and the tax system⁹.

Thus, the interpretation of "public finances" is evolving, as contemporary reality demonstrates. The functions and tasks of the state at local and public macro- and territorial levels are changing, which are associated with the utilisation of financial relations for the execution of functions by state authorities and local self-government bodies in accordance with existing societal realities and scientific hypotheses about the role of the state.

If we perceive public finances as a system of formal institutions for financial support of state functions, without demonstrating the conceptual foundation of financial science heritage in comparison with other socio-philosophical concepts distinct from efficiency and economic expediency, then public finances become a financial institution of another group of politicians in power who influence socio-political decision-making¹⁰.

⁶ Karlin, M.I. (2021). Local payments in the system of public finances of Ukraine. *Scientific Notes*, 28, p. 112.

⁷ Krysovatyi, A. (2023). Military realities of the fiscal space of public finance in Ukraine. *World of Finance*, 1(74), 8-30. <https://doi.org/10.35774/sf2023.01.008> (In Ukrainian)

⁸ Zimmerman, H. and Henke, K. (1981). *Wissenschaft*. Munich: Vahlen, p. 319. (In German)

⁹ Stiglitz, J. (1998). *Economics of the Public Sector* (transl. from Engl) Kyiv, Osnovy, p. 854. (In Ukrainian)

¹⁰ Khmelkov, A. (2019). Volume of public finances as a subject of control. *Financial and Credit Activity: Problems of Theory and Practice*, 4(31), 311-318. Retrieved from <https://ekhnuir.karazin.ua/items/0c099cb6-ae77-4d2b-980c-ad7bf54ce273> (In Ukrainian)

Consequently, such substantive content of this category should consider the interests of all subjects in the public space, as well as state and social institutions. That is, public finances should be viewed as the art of administrative and financial management aimed at creating conditions for ensuring life safety, reducing inequality in the distribution of material goods in society, and improving the level and quality of public welfare.

It should be noted that the meaning and essence of finances are manifested in the functions they perform. Moreover, they reflect the main objectives and characteristics of finances in state activities. The planning function involves determining tasks and methods for their implementation as a result of the division of powers between authorities at state and local levels. The organisational function, in our view, consists of forming the activities of state and local authorities according to the set tasks and chosen methods for their execution. The stimulation function involves the realisation of set tasks to obtain public goods. The distributive function of public finances consists of allocating financial resources to meet relevant needs, whilst the control function implements set tasks through the development of appropriate standards, leading to the control and evaluation of achieved results.

Ukraine's ability to safeguard its financial stability against existing challenges and military threats remains intact today, largely due to the heroic efforts of its armed forces. The Ukrainian army's valiant actions in repelling enemy attacks, liberating occupied territories, and providing protection from air missile strikes have been instrumental in this regard. Furthermore, these military successes have laid the foundation for stabilising public expectations and societal outlook concerning Ukraine's prospects for EU accession, while also paving the way for the fundamental process of economic recovery after victory¹¹. War-induced losses could not but affect public finances from both scientific and practical perspectives. The third year of military aggression demonstrates all the advantages and disadvantages of both the Ukrainian economy in general and public finances in particular.

Many of today's real advantages have resulted from reforms implemented in previous years. Decentralisation and the formation of fiscal federalism foundations have contributed to the stability of the entire financial

¹¹ Zatonatska, T., Ljutyj, I., Anisimova, O. (2023). Public finance management under uncertainty. *Finance of Ukraine*, 11, 34-48. <https://doi.org/10.33763/finukr2023.11.034>

system, including the banking sector. Additionally, the Ministry of Finance, the government, and the National Bank have demonstrated their ability to maintain macroeconomic stability under extremely complex conditions, while reformed state-owned enterprises have shown initiative in implementing large-scale innovative projects to support citizens and businesses.

Despite these strengths, certain vulnerabilities have become apparent in the system. Populist actions by many government leaders in recent years, budget revenues from the state treasury, and the desire to spend more on borrowing than planned have left the state budget not only without strategic reserves but also with exorbitant expenses to cover costly debts. For decades, ordinary citizens and company representatives have distrusted the government, so even now they give money to volunteers rather than paying taxes and levies honestly, all of which makes Ukraine's public finances vulnerable and overly dependent on international financial assistance.

The full-scale war that Russia initiated against Ukraine has shaken society, public finances, and the economy. As of 2023, direct losses from the war in Ukraine will amount to \$135.9 billion, including damages from housing destruction at \$52.5 billion, infrastructure at \$35.6 billion, industrial enterprises at \$13 billion, the agro-industrial sector at \$6.6 billion, energy at \$6.8 billion, the education system at \$8.2 billion, and environmental damage at \$14 billion¹². Thus, the war has further exacerbated the problem of global poverty, forcing society to view differently the issue of globalisation of public finance management systems and the government's responsibility for preparing people for new challenges and threats.

Incidentally, one of the priority areas of reforms implemented in Ukraine over the past few years, and which will continue after the war's conclusion, is the improvement of public finance management. In the academic literature, various approaches exist to defining this concept, the content of which largely depends on the interpretation of the terms 'management' and 'public finances'. Some scholars assert that public finance management should be understood as a type of relationship

¹² Vyshlinsky, H., Haidai, Y. and Repko, M. (2023). *Ukraine's economy during the war: results of the year*. Retrieved from <https://ces.org.ua/economy-of-ukraine-during-the-war-december-amndhe-results-of-the-year>.

between a specialised apparatus in the state's economic system, which, in the process of interaction, utilises certain methods and technologies within the framework of the current regulatory framework¹³. S. Klimova also considers this concept as a variety of managerial relations, interpreting it as an integral part of economic management, carried out using specific techniques¹⁴.

Researcher T. Sholkova conceptualises financial management as a method of state financial activity. According to the researcher, it involves the adoption of normative legal acts by competent bodies and the coordination of cash flows and other financial resources. This process encompasses the functioning of centralised and decentralised funds, aiming to achieve specific goals in the sphere of financial activity to satisfy the public interests of the population¹⁵.

As a result of utilising the methodological tools of modern financial science, we have formed a comprehensive theoretical and methodological approach that allows revealing the essence of public finance management as a multifaceted phenomenon.

1. From the perspective of a dialectical approach: in fact, public fund management is a movement aimed at maximising the satisfaction of public interests and achieving macroeconomic stability; in terms of content, it is the development and implementation of a management theme that influences decision-making related to the theme of finance functioning. Financial management manifests itself in the form of such administrative activities of state bodies and local self-government bodies, and budget managers are responsible for strategic, medium-term and current planning of the process of formation and use of public financial resources.

2. From the perspective of a systems approach: as a set of subsystems, the formation and use of public financial resources is carried out as a result of the interaction of elements, the movements of which are the main subsystems of supervisory financial management, namely the management of state and local budgets and the management of social extra-budgetary

¹³ Blishchuk, K.M. (2021). Strategies for improving public finance management. *Efficiency of Public Administration*, 2(67), 116-131. <https://doi.org/0.33990/2070-4011.67.2021.240248>

¹⁴ Klimova, S.M. (2016). Public finance management as a component of public administration reform in Ukraine. *State and Regions*, 3(53), 84-89.

¹⁵ Sholkova, T.B. (2019). The concept and significance of public finance management. *International Legal Bulletin: Current Issues of Today*, 15, 143-151. Retrieved from: <https://journals.dpu.kyiv.ua/-index.php/law/article/view/196>.

public funds. Each of these subsystems contains interacting elements that are determined by management functions, including strategic planning, organisation, accounting, and control over the implementation of development plans. These functions encompass strategic, medium-term, and current planning of the process of forming, deploying, and managing public financial resources, as well as organising the implementation of developed plans and maintaining accounting and control over their redirection.

3. From the perspective of a process approach: as a process that influences the subject of management through the use of financial products and technologies for making managerial decisions, ensuring the performance of functions of state bodies and local self-government and maximising the satisfaction of public interests.

Considering that the components of public finances are state funds, components of the local budget and social extra-budgetary public funds, public financial resources include: funds from the state and local budgets and funds from the Pension Fund of Ukraine and the Compulsory State Social Insurance Fund of Ukraine for Unemployment. To influence, state financial management bodies use financial instruments, namely revenues, taxes, fees, loans, non-tax revenues, service charges, transfers from intergovernmental and foreign governments, etc. Management procedures involve consideration of formal and informal rules, management principles and appropriate methods.

Effective financial management largely depends on the consideration of management principles in the activities of state bodies and local self-government authorities, as well as budget administrators. Given Ukraine's commitment to integration with the European Union, the primary administrative requirements, particularly in the realm of general and financial management, are being developed by Sigma experts through management support programmes and management improvement initiatives with EU financial backing, which merit attention and implementation. The OECD Deputy Secretary-General emphasises this point, noting that as the EU accession process often necessitates fundamental reforms under conditions of limited financial resources, the principle of administration is not merely a set of requirements, but also an aid in shaping the vision of administrative reform and an assistant to key

decision-makers¹⁶.

The necessity of exploring potential avenues for improving the public finance system and adhering to European Union requirements, fiscal policy, and medium-term budget planning in the current situation depends on the effective functioning of the public financial system for the country's ability to efficiently perform its functions. The contemporary reality is such that numerous complaints arise among the population due to ineffective management of public finances in the formation, distribution, and utilisation of funds from centralised sources. The primary concerns include significant tax burdens, the predominance of the fiscal function of the tax system at the expense of the stimulation function, insufficient levels of social equity in the tax system, inefficient allocation of budgetary resources, and very low levels of social security and public life for vulnerable segments of the population.

Consequently, the issue of optimising the functioning and management of public finances gains relevance. The implementation of these measures will enable the creation of a reliable financial base for the state, sufficient for the effective execution of its functions. This, in turn, will stimulate the development of entrepreneurial activity, contribute to raising living standards, and improve the quality of public services. Consequently, these actions will help achieve social harmony in society, while naturally adhering to international standards in this field and aligning with the chosen vector towards European integration¹⁷.

Incidentally, Ukraine has recently adopted a positive course towards integration with EU countries. This indicates the need to improve public finances in accordance with European Union requirements. It will be important to examine the current state of finances and directions for further development. We need to implement structural reforms, improve budget planning, and find ways to increase expenditure efficiency. The study of building an effective, socially-oriented financial system is one of the most pertinent issues in Ukraine. Only in this way can the goals set by the state be achieved. Therefore, its examination takes into account the country's socio-economic condition, the level and pace of economic

¹⁶ Hill, K. (2017). Principles of public administration. *Sigma*. Retrieved from <https://www.sigmaweb.org/publications/Principles-of-Public-Administration-Overview-2017-Ukrainian.pdf>.

¹⁷ Hnydiuk, I.V. and Skladaniuk, M.S. (2023). Problems and prospects of public sector finance development in the context of European integration. *Economy and Society*, 43.

growth, maintaining a high level in the future, and ensuring social harmony in society.

In Ukraine, it is necessary to create a system of public finances that operates efficiently and without deficiencies. This will help elevate our country to a new stage of development, raise the living standards of its citizens, achieve desired societal welfare goals, restore the national economy, and make it more competitive compared to more developed countries. The modern development of the state and its citizens is impossible without the success of the financial system; therefore, much attention should be paid to this field and research conducted¹⁸.

However, the war that has been ongoing in Ukraine for the third year is causing a decline in GDP, a demographic crisis, a decrease in the population's welfare, deterioration of the economic situation, destruction of infrastructure and logistical problems, and significantly affects the functioning of public finances. Ukraine's aspiration for the need for recovery, ensuring macroeconomic stability, and combating wartime risks is the reason for reviewing the foundations and priorities of the state's fiscal policy, increased need for financial resources, their more effective use, and efficient management of public finances. The recommendations of the OECD Council on Budgetary Governance, systematised according to ten principles of effective budgeting, are of immense importance for financial management entities, as effective budgeting has gained particular significance in modern realities. According to the recommendations of the Organisation for Economic Co-operation and Development (OECD), the principles of effective budgeting include:

1. Managing the budget within an open, reliable and predictable fiscal policy framework;

2. Aligning the budget with the government's medium-term strategic priorities;

3. Developing a capital budgeting framework that is economically efficient and consistently meets national development needs;

4. Ensuring openness, transparency and accessibility of budgetary documents and data;

5. Facilitating comprehensive, collaborative and realistic discussions on budgetary choices;

¹⁸ Honcharenko, M.V. (2016). European standards of anti-crisis management of public finances. *Current Issues of Public Administration*, 2, 1-6. (In Ukrainian)

6. Presenting a comprehensive, accurate and reliable account of public finances;

7. Planning, managing and monitoring budget execution;

8. Ensuring that performance, evaluation and value for money are integral parts of the budget process;

9. Identifying, assessing and prudently managing long-term sustainability and other fiscal risks;

10. Promoting the integrity and quality of budgetary forecasts, fiscal plans and budget execution through rigorous quality assurance, including independent audits.

These OECD principles of effective budgeting and Sigma's financial management principles form the basis for modernising the administrative system based on international standards and best practices, and for creating a modern administrative system with robust institutions suitable for EU integration. Thus, sound, accountable and transparent management of finances, procurement and infrastructure management is key to successful restructuring¹⁹.

Contemporary challenges and threats necessitate a fresh perspective on the role of the state and its financial products in ensuring national security, establishing effective local self-governance, stabilising socio-economic development in the region, and addressing issues related to upholding principles of social justice. The material resources redistributed through the financial system bear significant responsibility for their effective management. The problem of finding the right financial management instrument has become particularly acute in conditions such as economic instability, financial imbalance and debt crises. The response to these depends on both the depth and duration of the crisis, as well as the possibility of its rapid resolution, restoration of economic growth, ensuring a stable and balanced nature, and improving the welfare of the state²⁰. In the context of the ongoing war, the main risks to the functioning of public finances remain:

1. Threats to maintaining macroeconomic stability;

2. Declining economic growth rates and insufficient funds

¹⁹ OECD (2023). 'The current assessment for 2023 looks at recent domestic policy developments, and policy responses to Russia's war of aggression in Ukraine'. Retrieved from <https://www.oecd.org/en/regions/eurasia-region.html>.

²⁰ Yefymenko, T.I. (2021). *Improving public finance management and reforming the tax system of Ukraine*. Kyiv, Academy of Financial Management, p. 446.

accumulated in the budget for proper execution of state functions;

3. Growing need for financial resources due to the necessity of increasing defence funding, restoring production capacities and addressing social issues;

4. Challenges in fully utilising programme-oriented, participatory and gender-oriented budgeting, reduced quality of budget planning due to violations of financial discipline by budget process participants and increased government expenditures;

5. Decreased solvency of state and local budgets, the budget of the Pension Fund of Ukraine, temporary cash gaps, insufficiently effective liquidity management of the Ministry of Finance's single account, etc.

We concur with the analytical cautions of some scholars that it is crucial to prevent the worst-case scenario of economic development: when state finances become entirely dependent on foreign finances, primarily budgetary aid²¹. Therefore, in our view, the development of adaptive financial management is a necessary prerequisite for ensuring financial sustainability in wartime conditions. It is based on accounting for key management principles, the ability to respond promptly to changes in external and internal factors affecting the functioning of finances, through coordination of the management system and improving the interrelation between components of this system.

Adaptive management of public finances involves implementing measures aimed at modifying management subjects, objectives, and the financial instruments and technologies used for decision-making. These changes focus on the formation and expenditure of public financial resources, as well as the tools used for monitoring their movement. Moreover, the primary goals of this adaptive approach are to counter wartime risks and ensure financial resilience in the face of external threats and internal challenges²².

Given the current military realities, the significance of timely and multi-faceted decision-making by national governments, particularly in the management of public funds, has become increasingly evident. Ultimately, they bear responsibility for people in sovereign territory. The war

²¹ Ministry of Finance of Ukraine (2023). *Debt statistics of the Ministry of Finance of Ukraine*. Retrieved from <https://mof.gov.ua/uk/borgovi-pokazniki-st>.

²² Melnyk, S.I. (2022). Adaptive management of financial security of the enterprise. *Efficient Economy*, 5. Retrieved from: <http://www.economy.nayka.com.ua/?op=1&z=10271>. (In Ukrainian)

confirms the high significance of global aspects of international assistance on the path to a European future²³.

Violations of budgetary legislation, including misappropriation and inefficient use of funds during planning, indicate that breaches and deficiencies in managing the revenue side of the state budget (45.9 billion UAH) were caused by delays and incomplete transfers of mandatory payments to the budget, amounting to 37.3 billion UAH. The percentage of such violations was significantly lower: inadequate control by executive authorities over the timeliness, accuracy, and completeness of tax and fee calculations – 7 billion UAH²⁴.

The Budget Code of Ukraine addresses the issue of ensuring effective expenditure of budgetary funds and substantiates the expediency and necessity of evaluating and monitoring this process. However, the responsibility of budget process participants for budgetary offences arises in cases of improper (and ineffective) use of budgetary funds, violation of legislative requirements, budgetary obligations of budget fund managers, etc²⁵. In light of this, it is recommended that the Budget Code of Ukraine provide for measures of influence in cases of inefficient use of budgetary resources. This is possible in the context of implementing the programme-target method at all budget levels and allows for the evaluation of budgetary programme effectiveness. However, since 2018, the mandatory introduction of programme-oriented budgeting in the budgetary process at state and local levels, despite its continuous improvement, currently faces numerous challenges, exacerbated by restrictions imposed by martial law, which require resolution. In particular, it is recommended to resume the preparation of a forecast document for medium-term budget planning and ensure consistency with the strategic plan²⁶.

It is worth noting that the objectives defined by the Strategy for Reforming the Public Finance Management System for 2022-2025 remain relevant:

²³ Lobodina, Z., Demianyshyn, V., Kizyma, T., Lushnei, Y., & Lobodin, R. (2024). Public finance management in the context of countering wartime risks. *Herald of Economics*, 4, 8-28. <https://doi.org/10.35774/visnyk2023.04.008> (In Ukrainian)

²⁴ State web portal of the budget for citizens 'Open budget' (2023). Retrieved from <https://openbudget.gov.ua>

²⁵ Budget Code of Ukraine (2023). 3278-IX. Retrieved from <https://zakon.rada.gov.ua/-laws/show/2456-17#Text>.

²⁶ Lobodina, Z. (2018). *Budget mechanism: conceptual foundations and prospects for modernisation*. Ternopil, p. 412. (In Ukrainian)

1. Implementation of medium-term budget plans is associated with strategic planning, which allows for the allocation of public resources considering certain state priorities and the predictability of budgetary policy;

2. Enhance the efficiency of public expenditures and improve the quality of public services through regular audits of state budget expenditures and strengthening the responsibility of the main budget fund manager for rational use to achieve operational objectives;

3. Strengthen control over the assessment of the impact on budgetary resources of new initiatives by executive authorities to ensure budgetary balance and prevent the adoption of financially unjustified decisions;

4. Ensure timely identification of financial risks and implementation of measures to minimise negative impacts on public finances;

5. Improve the quality and efficiency of tax and fee management, as well as strengthen the corporate capacity of corporations in implementing tax and tariff policies;

6. Further support the process of budgetary decentralisation by ensuring a clear distribution of relevant powers and resources and enhancing the financial viability of local authorities;

7. Implement a policy of rational debt management at state and local levels and introduce modern liquidity management models;

8. Ensure further digital development of an effective and transparent financial management system;

9. Improve the expertise and skills of personnel working within the financial system²⁷.

As noted above, the process of public finance management and control over their utilisation has its peculiarities during wartime. Under peacetime budgetary legislation, changes in expenditure and revenue volumes required amendments to the relevant normative acts, a process that could take from several days to several months. However, to ensure the functioning of the national economy under martial law, it is necessary to implement a series of extraordinary measures, such as expanding the powers of local authorities, adopting appropriate normative acts, and redistributing public finances according to application priorities.

²⁷ On approval of the Strategy for reforming the public finance management system for 2022-2025 and the action plan for its implementation No. 1805-r (2021). Retrieved from <https://zakon.rada.gov.ua/laws/show/1805-2021-p#Text>.

The redistribution of budgetary funds during wartime does not require a parliamentary decision; thus, the Budget Law grants the government the authority to allocate funds at its discretion and direct them towards the most pressing needs. Consequently, based on the necessity for rapid and effective responses to current circumstances, Ukrainian authorities have adopted a series of operational decisions since the war's onset to ensure the proper utilisation of public finances.

In 2022, the Cabinet of Ministers of Ukraine approved Resolution No. 420 "On Amendments to the Procedure for Exercising Powers by the State Treasury Service in a Special Regime under Martial Law". The changes emphasise the priority of general fund expenditures and, during the period of martial law, include:

1. Payment for services of advocates providing free secondary legal aid and reimbursement of their expenses;
2. Payment for services, namely the production and distribution of informational products, as well as services for publishing information in mass media;
3. Procurement of antiseptic and disinfectant substances for water disinfection in centralised drinking water supply and sewerage systems;
4. Organisation, execution, and provision of special flights on civil aircraft with the letters "A" or "K" for top state officials;
5. Procurement of goods for honorary titles and awards;
6. Acquisition of plastic products for packaging waste and personal hygiene items, and payment for medical examinations of drivers and civil and legal liability insurance services in accordance with Ukrainian laws;
7. Payment or reimbursement of funds for obtaining information from foreign databases and registers²⁸.

It should be emphasised that the aforementioned resolution alters the procedure for repaying debts on loans provided to cover temporary funding deficits of local budgets (if there is debt on such loans) and repayment of local debt. General funds of local budgets in settlements located in territories where martial law has been introduced are partially

²⁸ Resolution No. 420 (2022). On approval of the Procedure for exercising powers by the State Treasury Service in a special regime under martial law. Retrieved from <https://zakon.rada.gov.ua/laws/show/420-2022-%D0%BF#Text>.

allocated for repayment, only 80% of revenues²⁹. The issue of taxes for filling the main budget items at national and local levels should be considered separately. Given that Ukrainian businesses are particularly vulnerable during wartime, the state has implemented a series of initiatives to support entrepreneurs, including taxation of entrepreneurs, reducing tax pressure, and simplifying and improving the tax system during martial law. All these tax changes are necessary to support individuals and legal entities during wartime and have a significant impact on the execution of budgets at various levels and the overall situation in Ukraine's financial sector.

On 11 March 2022, in response to the initiated conflict, the Ukrainian government adopted Resolution No. 252, titled "Certain Issues of Formation and Execution of Local Budgets During Martial Law". This resolution outlines the procedures for compiling local budgets and ensuring the uninterrupted functioning of institutions and entities in the budgetary sphere and municipal enterprises. Furthermore, the resolution stipulates that these processes shall be carried out in accordance with the budget law, while taking into account several specific considerations:

1. Local self-government, their executive bodies, local administrations, and military and civil administration bodies continue to exercise their budgetary powers;

2. Executive committees of local councils, local and military administrations manage finances in accordance with martial law requirements;

3. Local authorities ensure the preparation of proposals for the local budget in accordance with the requirements of the Law on the Budget of Ukraine;

4. The State Treasury Service provides cash and payment services for local budgets and reports on their execution through electronic media;

5. State control does not conduct audits of local budget execution until the cancellation of martial law, and ongoing inspections are suspended³⁰.

Regarding cash expenditures from the general fund of the State Budget for January-June 2023, the total amount is 1,408.3 billion UAH. In

²⁹ Resolution No. 420 (2022). On approval of the Procedure for exercising powers by the State Treasury Service in a special regime under martial law. Retrieved from <https://zakon.rada.gov.ua/laws/show/420-2022-%D0%BF#Text>.

³⁰ Resolution No. 252 (2022). Some issues of formation and execution of local budgets during martial law. Retrieved from: <https://zakon.rada.gov.ua/laws/show/252-2022-%D0%BF#Text>.

June, expenditures amounted to 265.1 billion UAH. This is evidenced by the monthly reporting data of the Ministry of Finance of Ukraine as of 14 July 2023. From the perspective of expenditure structure, the largest areas are: 569.4 billion UAH (98.7 billion UAH in June) allocated for salary payments with all accruals, which constitutes 40.4% of all expenditures in January-June 2023. Specifically, 441.9 billion UAH (75.5 billion UAH in June) was allocated for military personnel remuneration; 341.1 billion UAH (60.7 billion UAH in June) was spent on payments for goods and services, accounting for 24.2% of total expenditures, of which 230.3 billion UAH was spent on supporting the Armed Forces of Ukraine. This includes procurement of military equipment, weapons, ammunition, defence products, personal protective equipment (helmets, body armour, and other special means), fuel and lubricants, and food; the National Health Service of Ukraine contributed 67.4 billion UAH for the implementation of the public health care programme. Also, 264.3 billion UAH (42.5 billion UAH in June) was allocated for social payments (pensions, benefits, and scholarships), constituting 18.8% of all expenditures, specifically: 135.9 billion UAH transferred to the Pension Fund for pension payments, pension increases, and benefits; 93.3 billion UAH transferred to the Ministry of Social Policy for social protection of children and families, protection of citizens in difficult life situations, and support for low-income families. Finally, 84.4 billion UAH (22.4 billion UAH in June) was transferred to local budgets, which is 6% of the total volume; 116.8 billion UAH (33 billion UAH in June) allocated for public debt repayment, which constitutes 8.3% of the total volume³¹.

Thus, the war has introduced significant adjustments to public finance management, with the situation changing dramatically, resulting in defence expenditures becoming the largest item of state budget expenditures. Specifically, according to the latest data, the deficit of the general and special accounts of the State Budget of Ukraine in February of the current year amounted to approximately 67 billion UAH. This is equivalent to approximately 1.84 billion USD. Overall, this indicator is significantly better than the monthly deficit of 3.1 billion USD envisaged during State Budget planning.

³¹ *Ministry of Finance* (2023). Expenditures of the general fund of the state budget. Retrieved from: https://www.mof.gov.ua/uk/news/minfin_vidatki_zagalnogo_fondu_derzhbiudzhetu_u_serpni_stanovili_2484_mlrd_grn-4195.

Naturally, once domestic financial resources are depleted, the sole remaining option is to seek financial assistance from international allies. The press service of the Ministry of Finance reported that, in the period from January to June 2023, Ukraine received international assistance in the form of grants amounting to 269.6 billion UAH. The largest donor country of non-repayable assistance in January-June 2023 was the United States (263 billion UAH). Ukraine also received non-repayable funds from Germany, Spain, Finland, Ireland, Switzerland, Belgium, and Iceland totalling 6.6 billion UAH. These funds were transferred to the State Budget of Ukraine through the World Bank Trust Fund within the framework of the PEACE project³².

As Ukraine enters its tenth year of conflict with Russia, it faces the immense task of rebuilding and modernising its economy and state institutions following a complex process of reforms and political changes. A crucial aspect of this is the effective management of public finances, including reconstruction funds. The United Kingdom, for instance, is developing a military risk insurance scheme to persuade companies to participate in Ukraine's restoration. In this manner, it hopes to encourage investment, technology, energy, and defence companies to support the public finances of reconstruction. In June, the United Kingdom hosted a conference on Ukraine's reconstruction, aiming to secure support from world leaders and politicians regarding proposals for financing the rebuilding efforts. Discussions between the UK and its Ukrainian allies prior to the conference focused on ways to encourage investments through public funding of war risk insurance. According to agency sources, the UK aims to attract both private investments and public funds for restoration. Japan also seeks to play a significant role in financing and reconstruction, drawing on its experience following natural disasters³³.

Under martial law conditions, the state cautiously and prudently expends funds from national and local budgets. Defence expenditures are prioritised, whilst expenditures that could be directed towards capital construction and development are reduced and allocated to reserves. Funding for development expenditures is also suspended, and financing for

³² ³² *Ministry of Finance* (2023). Ukraine received international assistance in the form of grants in the first half of the year. Retrieved from: <https://minfin.com.ua/ua/2023/07/04/108416230/>.

³³ Bloomberg (2023). Britain is developing a war risk insurance scheme to attract private business to the reconstruction of Ukraine. Retrieved from <https://www.bloomberg.com/subscriptions/-what-you-get/>.

current and protective expenditures (civil servants' salaries, utility payments, procurement of energy resources and medicines, repayment of state and local debt) is sharply restricted. This means that funds are directed towards defence, pension payments, salaries for public sector employees, and state debt repayment.

Given the current situation, to further finance budgetary expenditures under martial law conditions, attention must be paid to the following areas. Firstly, the government needs to continue emphasising domestic borrowing through the issuance of domestic government bonds (DGB) as war bonds. Through this instrument, 1.6 billion UAH was raised in August 2023, providing substantial support to the domestic economy and armed forces. In principle, war bonds have the same structure as ordinary government bonds that Ukrainians could purchase before the full-scale invasion. In practice, they represent promissory notes. Investors purchase bonds, and the state promises to return the money and pay interest within a certain period.

Bonds are issued for terms ranging from three months to two years. This means that the money invested in a bond will be returned upon the expiration of this term. Interest on short-term bonds is paid along with the repayment of the principal amount, whilst for long-term bonds, it is paid every six months. The yield on government bonds ranges from 10% to 16% per annum. The same principles apply as with deposits. The longer the term of the government bond, the higher the interest rate. The price of government bonds starts from 900 UAH. Government bonds are distinguished by their redemption period of up to 18 months, interest rates from 11% to 16% per annum, and names originate from temporarily occupied cities or territories³⁴.

Secondly, to finance a significant portion of government expenditures, the government must rely on foreign aid in the form of grants and external borrowing. Thirdly, due to insufficient assistance from international partners and the prolonged operational phase of the war, the government must, under difficult conditions, make undesirable but necessary decisions on how to finance the state budget through the National Bank of Ukraine. This direction for further financing of budgetary expenditures under

³⁴ Verkhovna Rada of Ukraine (2022). On amendments to the Tax Code of Ukraine and other legislative acts of Ukraine regarding the peculiarities of taxation and reporting during martial law: Law of Ukraine No. 2118-IX. Retrieved from <http://www.economy.nayka.com.ua/?op=1&z=10271>.

martial law conditions is highly risky, as the NBU will be forced to purchase government bonds, and such an increase may cause a serious inflationary explosion in Ukrainian society, ultimately undermining the economy. Therefore, it is evident that this instrument is demanding and should be used with extreme caution.

Thus, one of the most pressing tasks facing Ukraine's public finances today is finding ways to maximise budget revenues at all levels. In particular, state authorities and local communities must stimulate small and medium-sized businesses to return to work, pay taxes, and fulfil budgets according to their powers and capabilities. It should also be emphasised that Ukraine is obligated to repay its external debt, which greatly complicates the situation during wartime and may lead to default in case of payment delays. Therefore, measures to control the use of public finances should be based on a balance between internal expenditures and the cost of external borrowing.

In this context, Ukraine's debt image in the international arena plays a crucial role. This is because timely debt repayment allows Ukraine to rely on the fulfilment of obligations by foreign partners and the allocation of grants and financial assistance for the development of the Ukrainian state in the post-war period. However, it is worth noting that despite the continuation of military actions, in January-June of the current year, state debt repayment amounted to 246.1 billion UAH (96.6% of the planned amount), whilst servicing payments amounted to 116.8 billion UAH (89.2% of the planned amount)³⁵.

This tendency must continue, as deviating from debt obligations is a path to default. Simultaneously, it should be acknowledged that improving Ukraine's credit rating is a primary priority for the government. This will allow Ukraine to access cheaper loans and reduce future debt servicing costs.

The matter of taxation, crucial for funding key budget categories at both national and local levels, warrants distinct consideration. Given that jobs in Ukraine were particularly vulnerable during the war, the state should simplify and improve the tax system, especially for the period of martial law, related to the taxation of entrepreneurs:

1. An entrepreneur, under martial law conditions, who cannot pay

³⁵ Resolution No. 252 (2022). Some issues of formation and execution of local budgets during martial law. Retrieved from: <https://zakon.rada.gov.ua/laws/show/252-2022-%D0%BF#Text>.

taxes and fees on time, submit reports and register accounts for taxes and excise duties, does not bear financial or administrative responsibility, but after the end of martial law, the entrepreneur must fulfil these obligations within 3 months;

2. Tax audits of activities do not commence during the period of martial law, and initiated audits must be suspended;

3. Operations providing charitable assistance to the Armed Forces of Ukraine, territorial defence, civil protection forces, hospitals, and reimbursement of fuel costs spent on transporting such assistance are not taxed;

4. Regarding individuals, those who made charitable donations during 2022 are entitled to tax deductions in the amount of expenses not exceeding 16% of the total annual taxable income. Furthermore, the provision of charitable assistance to persons residing in areas of military action or relocating due to them is not included in the annual taxable income of individuals³⁶.

All these tax changes, necessary to support individuals and legal entities during the war, have significantly impacted budget execution at various levels and the overall situation in Ukraine's public finance sphere. Thus, it should be noted that in the context of war, filling both local and national budgets becomes problematic. Loss of land, collapse of enterprises, and physical destruction have made it impossible to cover the revenue side of the budget. If before the war, the level of achieving planned revenue indicators was almost 107%, in 2023, due to insufficient coverage of the revenue side and allocation of funds for military needs, the state budget expenditure plan was executed only at 65%. However, rapid reallocation of resources to priority expenditures, support from international partners, and adherence to budgetary discipline allowed the prevention of a budgetary crisis during the war period in public finances at both central and local levels³⁷.

In other words, the Russian military invasion has placed the Ukrainian state in a difficult situation, severely affecting the budgetary sector. The

³⁶ Verkhovna Rada of Ukraine (2022). On amendments to the Tax Code of Ukraine and other legislative acts of Ukraine regarding the peculiarities of taxation and reporting during martial law: Law of Ukraine No. 2118-IX. Retrieved from <http://www.economy.nayka.com.ua/?op=1&z=10271>.

³⁷ Uliutin, D. (2024). *The public finance management system has demonstrated its resilience even in wartime conditions*. Retrieved from <https://www.kmu.gov.ua/news/systema-upravlinnia-derzhavnymy-finansamy-prodemonstruvava-svoiu-stiikist-navit-v-umovakh-viiny-denys-uliutin>.

redistribution of financial resources has changed significantly, priority budget expenditure items have shifted, and revenues to budgets at various levels have sharply decreased. The pre-war budget was executed according to plan, and at the beginning of 2022, a budget surplus was observed; however, in March of the same year, the unplanned budget deficit increased sharply. Consequently, the vector of attracting financial resources has changed, dominated by external borrowing. Given the strengthening of international financial support for Ukraine and the prospects for deepening cooperation between the Ukrainian state and its foreign partners, it is crucial to maintain a positive debt image. Therefore, the complex situation in which Ukrainian society finds itself requires decisive, rapid, and economically justified decisions from the state and local authorities to ensure effective distribution and redistribution of public finances.

Conclusions. This study has investigated the unique characteristics of public finance management and current trends in controlling their use during the period of martial law. The research has highlighted the significant impact these factors have on the state's capacity to effectively carry out its functions. Furthermore, it has demonstrated how these aspects influence the state's ability to stimulate economic growth and achieve societal welfare objectives.

It has been determined that the modernisation of the public finance system and the implementation of new management models are based on the adoption of best practices used in the market sector, i.e., private business, and the development of the state apparatus in the economy. Key principles of new models in public finance management have been identified. These include the restructuring of state power and decentralisation of authority, privatisation and reduction of the public sector's economic share, and programming of state economic policy for regulating institutions and differentiating economic functions. Additionally, these models emphasise personal responsibility of state structure heads for performance results, flexibility in civil servant conditions and remuneration, implementation of business practices in financial resource management, and orientation of state goods and services towards consumer needs. The interpretation of the concept of 'public finances' has evolved, taking into account various scholarly approaches and current realities. This evolution reflects changes in the

functions and tasks of the state at local and public levels, which involve the use of financial relations by state authorities and local self-government bodies to execute their functions in accordance with existing societal conditions and scientific hypotheses about the state's role.

A scientific approach has been developed to reveal the essence of the concepts 'public finance management' and 'adaptive public finance management', which characterise the components of public finance management as a system and process. In conditions of war and economic crisis, the issue of applying adaptive financial management to ensure financial stability is particularly important in terms of countering wartime risks and increasing the efficiency of public financial resource utilisation. To this end, programme-object budgeting is used at state and local levels in the budget process, and other measures are implemented in accordance with the Strategy for Reforming the Financial Management System for 2022-2025.

Moreover, the conceptual framework for improving public finance management has been outlined in this study. Emphasis has been placed on the necessity of reviewing strategic priorities for socio-economic development to ensure sustainable and comprehensive growth in Ukraine. Additionally, recommendations have been proposed for enhancing the level of financial security, specifically taking into account the current wartime conditions.

The Organisation for Economic Co-operation and Development has put forth recommendations for effective budgeting principles, while Sigma has proposed principles for public finance management. These principles collectively serve as a foundation for establishing robust institutions and modern administrative systems, which are not only suitable for EU integration but also instrumental in modernising administrative systems in accordance with international standards and best practices.

It has been ascertained that the war has introduced significant adjustments to public finance management, with the situation changing dramatically, resulting in defence expenditures becoming the largest item of state budget expenditures. This includes the procurement of military equipment, weapons, ammunition, defence products, personal protective equipment (helmets, body armour, and other special means), fuel and lubricants, and food supplies.

The role of Ukraine's debt image in the international arena has been

analysed, and it has been established that timely debt repayment allows Ukraine to rely on the fulfilment of obligations by foreign partners and the allocation of grants and financial assistance for the development of the Ukrainian state. This trend must continue, as deviating from debt obligations is a path to default. Simultaneously, it should be acknowledged that improving Ukraine's credit rating is a primary priority for the government. This will allow Ukraine to access cheaper loans and reduce future debt servicing costs.

The renewal of the practice of adopting a three-year Budget Declaration and considering the budgetary policy objectives defined therein when formulating proposals for the state budget and local budget forecasts has been proposed. Additionally, ensuring the expenditure of public financial resources in accordance with state policy priorities through optimisation of the budget programme has been suggested, as well as the need to improve the effectiveness indicators of the budget programme and the methodology for evaluating the effectiveness of the budget programme, which is carried out by the main budget fund managers.

Finally, the research has uncovered that external threats, internal structural changes, and escalating destructive processes have led to the deterioration of the national economy. This economic decline has been found to have adverse effects on the operation of the financial system, with public finances - a crucial element of this systemkov - being particularly impacted. In further scientific research, it is desirable to focus attention on demonstrating the latest paradigm of public finance management in the context of Ukraine's post-war recovery.