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FISCAL STABILITY INDEX IN THE CONTEXT OF FINANCIAL POLICY: CURRENT CHALLENGES OF UKRAINE'S POST-WAR RECONSTRUCTION

ABSTRACT

The research examines indicators of fiscal stability by studying Ukraine's financial policy during military aggression and European integration using foreign examples. The purpose of the study is to analyze macroeconomic stability by examining indicators of the budget deficit, total public debt, and periodically adjusted budget balance. The intense concentration of financial resources has proven to have helped support the country's defense capabilities. It analyzes the main threats to financial stability, which constitute long-term solvency risks. In the long run, the expected bankruptcy requires systemic reforms in the area of taxation and public financial management. The evaluation of international aid demonstrated its key role in maintaining macro-financial stability. At the same time, it was noted that over-reliance on international financial resources created risks for future financial independence. The identified needs of European integration demonstrated the importance of harmonizing Ukrainian fiscal policy with the principles of transparency, responsibility, and accountability. The need to digitize budgetary processes was demonstrated, and the need to implement European practices in public debt management was confirmed. An analysis of European legislation from EU member states showed that fiscal discipline and stable rules allow for crisis resilience. It has been confirmed that the adaptation of Ukraine's approaches to EU debt sustainability criteria will ensure greater predictability of fiscal policy in the post-war context. The formulated conceptual approaches have shown that postwar financial strategy should combine economic recovery with the modernization of major financial institutions. The budget stability index can be used to highlight the dynamics of the gradual strengthening of the financial system. It has been proven that public investments, public-private partnership mechanisms, and tax incentives are the basis for restoring confidence in public finances and laying the foundations for sustainable economic development.

Keywords: fiscal stability, financial policy, budgetary policy, public debt, budget deficit, post-war recovery, European integration, fiscal transparency, macro-financial stability

JEL Classification: E62, H50, H63, H68, H77, F34, O23

INTRODUCTION

The modern global geopolitical environment is changing very rapidly. The recent years have brought Ukraine new challenges, which now exist as fundamental and survival-level problems. The socio-economic threats have evolved into a permanent state of danger, which seems inevitable. The 2022 military invasion of Ukraine brought about a complete transformation of economic systems and fundamental changes to public finance structures. The state requires modern financial policy, which has moved from theoretical concepts to become essential for national sustainability. The state enhances its defense capabilities, social functions, and business process activation through modern fiscal approaches.

The realities of war in any country that is a victim heavily burden the state budget. As a result, constant spending on military operations led to a record increase in the budget deficit in all countries that survived the war. It should be noted that a significant shortage of financial resources and an increase in defense spending contributed to a sharp increase in public debt and created conditions for the development of fiscal imbalances. This is also the case in Ukraine. We note that the domestic financial market of Ukraine

has undergone profound deformations. We recognize that a characteristic feature of the financial system of Ukraine has become the fact that the banking sector operates in conditions of increased volatility. In addition, the country's national currency and payment mechanisms are constantly exposed to internal and external shocks. It should be noted that the capital market has recently lost much of its institutional depth. The current military situation in the country demands a highly adaptable and precisely aimed fiscal policy. The fight for state survival runs simultaneously with Ukraine's advancement toward European integration. Combining the exceptional activation of financial resources in wartime with the gradual integration of the fiscal space into the logic and institutional norms of the European Union is a challenging but inevitable task. Progress toward EU membership requires the state to harmonize its fiscal architecture. Moreover, integration measures will ensure fiscal transparency and effective debt management. Such measures are possible only if the general parameters of economic policy are respected, by the requirements of the European Economic Area. Thus, post-war recovery must not only put the country back on a growth path, but also include the principles of budgetary responsibility and discipline, which form the basis of sustainable development in the post-war part of Europe, of which Ukraine is a part.

LITERATURE REVIEW

Several researchers have analyzed the factors that determine the degree of fiscal stability in different countries over a long period. It should be noted that some studies have described the relationship of the state budget to the debt-to-GDP ratio and investigated the reactions of budget revenues to expenditures. In particular, scientists such as Afonso J., Alves J., and Coelho J.C. used quantile regressions, which allowed them to identify heterogeneity of reactions depending on countries' public debt level (Afonso et al., 2025). Thanks to their scientific achievements, scientists understood that the "production gap" enhances fiscal stability. In addition, scientists determined that the degree of reaction of the concepts of the budget balance to debt depends on the level of public debt itself. From the point of view of wartime fiscal policy in Ukraine, the studies of these scientists are of direct importance for Ukrainian realities, since the decline in GDP increases fiscal instability, and post-war recovery requires flexible fiscal reactions to public debt.

Banna H., Alam A., Chen X. H., and Alam A. W. conducted research to study energy security and its effects on financial stability (Banna et al., 2023). The research conducted by these scholars used panel analysis of more than 60 countries to show how rising energy security risks result in lower GDP growth rates. The researchers discovered that the identified effects become more significant when inflation rates are high (which does not match current Ukrainian conditions) and when geopolitical tensions and military conflicts exist (these factors directly impact Ukraine). The research findings from these scholars remain highly relevant because war creates more energy risks, which produce inflationary pressures and budget deficits for the state.

The research investigates EU fiscal rules, which function to control debt growth and regulate sovereign debt amounts. Beetsma R. investigates how fiscal frameworks can preserve stability while avoiding adverse cross-border consequences of fiscal policies between different countries (Beetsma, 2022). The post-war Ukrainian economy requires dependable fiscal rules that establish deficit boundaries, debt constraints, and defense spending regulations to build stability.

It is worth noting that researchers often use real-time data to analyze fiscal policy. This is what researchers Gootjes B. and Haan J. achieved in their study, tracking the fiscal policy of 27 EU countries for 15 years (Gootjes et al., 2022). Their results indicate that, although fiscal plans predict acyclical developments, the results are procyclical. It is also worth noting that the researchers found that government efficiency and fiscal rules reduce the procyclicality of fiscal policy actively. In the context of post-war economic recovery in Ukraine, it will be necessary to implement a flexible fiscal policy. The implementation of specific plans faces challenges because of procyclicality, which demands improvement of the institutional system.

Some non-Ukrainian studies directly demonstrate how the "war shock" changes the economic context surrounding fiscal policy: increased deficits, shifts in budgetary priorities. In particular, researcher Halmi P. analyzes the macroeconomic changes caused by Russian aggression against Ukraine. He described the impact of the war on key indicators (GDP, inflation, and budgetary decisions) (Halmi, 2023).

Some researchers have studied the mechanisms of internal and international propagation of fiscal shocks using the example of other countries. For example, authors Ilori A. E., Paez-Farrell J., and Thoenissen C. used the examples of the United States and Germany to illustrate this approach. Using the Bayesian VAR model, the researchers established that fiscal expansion can influence potential GDP growth (Ilori et al., 2022). Moreover, it is possible to increase consumption and investment not only in the country implementing this policy, but also in others. Moreover, the delayed monetary response to the inflationary fiscal policy expansion increases international pressures. It is worth noting that Ukraine, by creating incentives for post-war recovery, can have a multiplier effect not only on the domestic market but also on the markets of

neighboring countries that are trade and economic partners. Of course, coordinated monetary policy actions should reduce inflation risks in external markets.

The level of actual geopolitical involvement of the EU in its backing of Ukraine during military operations is evaluated by some researchers. Johansson-Nogués E. and Leso F. observe that European partners have shown increased political dedication, yet their concrete military-financial measures remain limited in scope at this point (Johansson-Nogués et al., 2025). Their study emphasizes that the volume of macro-financial and budgetary assistance is crucial in maintaining fiscal sustainability during the war. European integration guidelines indicate that support is strengthened not so much institutionally as tactically. In this case, Ukraine should establish its independent budget management system and not rely solely on the EU.

Researchers Malla M. H. and Pairote P. studied the impact of fiscal policy and institutional capacity on income levels over 20 years in 30 developed and 30 developing countries (Malla et al., 2022). Scientists have found that direct taxes reduce inequality in developing countries, and indirect taxes have the opposite effect. It has also been noted that in developed countries, the size of the state also affects inequality. Thus, Ukraine, a country that can be classified as a developing country, has the following characteristics: tax progressivity directly affects inequality; the structure of public spending can increase or reduce inequality depending on the effectiveness of institutions.

Many researchers, particularly Muslim M., Ilyas M. F. G. B., and Sani A., use the systematic literature review for a specific period in their studies (Muslim et al., 2024). It should be noted that this approach allows for the formation of a multidimensional concept of fiscal stability in developing countries. The scientists we mentioned identified important components of fiscal stability. The researchers define fiscal stability through fiscal discipline, progressive taxation, effective public debt management, and countercyclical spending. The researchers stressed that institutional fiscal policy reforms will create unconditional investor confidence. The researchers identified three essential reforms: transparency, accountability, and strengthening public financial management. The researchers noted that weak fiscal capacity is a significant problem.

It is worth noting that researchers such as Oanh T. T. K., Van Le T. T., and Dinh Le Q. have studied the relationship between financial inclusion, monetary policy, and financial stability in more than 50 countries over 17 years, divided into highly developed countries and less developed countries (Oanh et al., 2023). It is important to understand that the Ukrainian context is similar to that of less developed countries. At the same time, in less developed countries, financial inclusion is linked to financial stability and reduces inflation while increasing the money supply. In less developed countries, a diametrical situation is observed. Namely, the point is that financial inclusion increases inflation and money supply growth, which leads to financial instability. We should proceed from the following for Ukraine, which is in the latent state of a less developed country. With a well-developed policy of accessibility to financial services and instruments, financial stability has a chance to strengthen, and there is also a probability of easing inflationary pressures during the upcoming post-war recovery.

Many researchers are researching financial stability, relying not on statistical data, but on communication with private sector executives. Scientists Opatska S., Johansen W., and Gordon A. interviewed heads of 20 Ukrainian companies to understand their strategies for managing war crisis challenges (Opatska et al., 2023). The researchers discovered that martial law demands flexible management and extensive improvisation because no one knows when the war will end. The organization builds its business process stability through short-term methods, which eventually shift toward strategic planning. Although these are rather corporate structures, it is imperative to determine budget priorities in the context of fiscal stability. The understanding of such priorities will allow us to determine the mechanisms of further post-war adaptation. In addition, stability will be determined by improvisation in managing financial resources. Improvisation is also determined by the understanding of the application of targeted support programs that depend on the speed of response.

AIMS AND OBJECTIVES

The scientific research seeks to develop a complete theoretical and practical comprehension of fiscal policy's role in maintaining financial stability in Ukraine during wartime and future post-war reconstruction, while considering Ukraine's EU integration requirements. The research seeks to develop a balanced budget management model that unites immediate requirements with the state's future strategic development paths.

In accordance with the stated objective, the following main tasks were identified within the research framework:

1. To analyze the current state of Ukraine's fiscal policy during wartime.

2. To identify the main threats to the state's financial stability associated with military operations and the growing need for social protection.
3. To assess the impact of external financial assistance (grants, loans) on stabilizing the macro-financial situation and the sustainability of the budgetary system.
4. To identify the requirements of European integration in the field of budgetary policy, including in the framework of harmonization with the principles of budgetary responsibility, budget transparency, and public financial management.
5. To provide for by European legislation and the practice of EU Member States.
6. To formulate conceptual approaches to a post-war budgetary strategy that will combine the tasks of economic recovery with the modernization of financial institutions and compliance with the criteria of the European Financial Area.
7. To systematize the budgetary response tools that can be used to stimulate the national economy in the post-crisis period (tax relief, public investment, public-private partnership mechanisms, and other means of restoring confidence in public finances).

METHODS

The study uses a comprehensive interdisciplinary methodological approach combining quantitative and qualitative analytical methods adapted to war and post-crisis contexts. The core of the study is a comparative analysis of macro-financial indicators (gross debt, primary balance, cyclically adjusted balance) based on IMF data for the period 2004-2027. This allows for an assessment of the magnitude of the fiscal burden in Ukraine, in terms of dynamics and comparison with other countries. The study uses regression analysis to identify the links between debt levels and fiscal sustainability, as well as factors affecting the effectiveness of fiscal policy.

The literature review conducted a systematic evaluation of scientific sources. The method enabled researchers to examine empirical studies conducted by scientists who live outside Ukraine. The research design enabled researchers to study fiscal rules implementation, military shocks effects, and institutional capacity and financial inclusion practices in other nations. The research provides new perspectives on obvious approaches because numerous scientists have studied the challenging financial situation in Ukraine. The researchers analyzed Ukraine's defense capability and social protection framework within the framework of international support. Special attention was always paid in the studies to the issue of debt restructuring and the prospects for implementing European budgetary standards.

Our scientific study used the method of critical analysis of the experience of other OECD countries, which allowed us to extrapolate relevant practices and identify limitations of their application to Ukrainian realities. An analysis of possible scenarios of post-war reconstruction of Ukraine was conducted. At the same time, attention was focused on the influence of sources of financing. The study also raised the issue of ensuring the sustainability of public finances. In general, the maximum combination of theoretical and analytical, empirical and applied tools allowed for a comprehensive description of Ukraine's budgetary challenges and opportunities during a large-scale war and the peculiarities of European integration processes.

This scientific article uses the approach of complex indexing by linear combination of given fiscal variables to create a formalized econometric model of the fiscal sustainability index. The method provides an adaptive and scalable model. It is important to note that the model uses weighting factors, time dynamics, and panel analysis of indicators.

RESULTS

The long-term financial stability of Ukraine depends on its budgetary policy because of the ongoing military operations across extensive areas of the country. The state budget revenues have experienced a substantial decrease because economic entities have reduced their activities. There was also a sharp increase in defense and social protection spending, and the restoration of infrastructure, which has been severely damaged over the past three years and requires significant funds. It is worth noting that significant financial resources are allocated to assist veterans and internally displaced persons. Although state budget expenditures have increased several times compared to pre-war times, it should be noted that a significant part of social expenditures is received as a result of international support. Severe imbalances have led to the budget deficit reaching one-third of GDP, which creates an unprecedented challenge to macro-financial stability.

The implementation of fiscal policy extends beyond its role in financial resource redistribution because it serves as an effective tool for stabilizing and transforming the economic system of a country. The tool functions as an effective mechanism for stabilizing and transforming the country's economic system. The economy's current state demands infrastructure restoration and substantial modernization efforts. A complete method should be used to understand fiscal policy operations during extensive military conflicts. Fiscal policy requires implementation across multiple timeframes, beginning with emergency stabilization measures before advancing to fiscal consolidation strategies and finally integrating into European Union financial systems.

First, the fundamental aspects of fiscal stability in the face of current external shocks are worth mentioning. Thus, financial stability is determined not only by the level of public debt but also by the government's ability to flexibly and effectively respond to the dynamics of its debt obligations. Based on this, financial stability is embodied in the mechanisms for forming the primary and general balance of the state budget.

Let us pay attention to the correct theses expressed by scientists, that effective organization of fiscal policy certainly contributes to economic recovery, and the successful implementation of such a policy begins with the rapid restructuring of the public debt that exists in the country (Becker et al., 2023; Cooper, 2025). In countries with developed economies and financial systems, key fiscal sustainability ratios that reflect the response of fiscal indicators to the debt-to-GDP ratio depend on the level of production and the phase of the economic cycle. During financial and economic recovery periods, the country has more opportunities to reduce the debt burden. The sensitivity of fiscal indicators depends on a country's level of public debt. The current pattern of excessive public debt accumulation reduces fiscal space, making the economy more susceptible to external disturbances. The country faces a rapid decline in its long-term solvency at this point. The post-war debt management strategy for Ukraine requires understanding these relationships because Russian military aggression caused rapid public debt growth during a short period. During peacetime, poor public debt management risks create significant obstacles to future stability, intensifying an already developing crisis.

As already noted, war, by its nature, creates an existential challenge that requires society to adapt and constantly improvise management. The decline in gross domestic product has occurred mainly due to factors such as the destruction of production facilities, disruption of supply chains of goods and raw materials, and the multimillion-dollar migration of the population (both within the country and abroad). The fall in GDP has led to a significant reduction in tax revenues to the state budget, creating a huge budget deficit. The prolonged nature of military operations demands rising financial support over time. Due to ongoing inflationary processes, the population's purchasing power and the country's economic stability deteriorate. The nation's investment climate suffers because these factors threaten its development potential. The understanding exists that external capital markets will become progressively restricted. In the long term, this situation leads to capital outflows and national currency devaluation. In this case, we understand that these risks are exacerbated during military conflicts and negatively affect the banking sector, increasing the level of problem loans and reducing the overall liquidity of the banking system.

The scientific study examines the interaction between fiscal policy and institutional capacity to influence the development of the national financial system during military upheavals. The scientific studies examine the experience of developing countries. The economic situation of these countries demonstrates that fiscal discipline, combined with an efficient tax system, is the basis for maintaining long-term fiscal stability. The urgent implementation of institutional reforms to enhance the tax and customs authorities remains impossible for Ukraine. That is, the organization of fiscal authorities will remain as it is in the coming years. Moreover, an important direction of reforms may be to improve the public finance management system through its impact on tax revenues. Of course, in wartime, when part of the economic system is in the shadows and even operates under stressful conditions, the efficiency of tax administration becomes especially important to ensure the filling of budgets at various levels. The current financial situation requires the implementation of tax innovations, which will affect fiscal policy. The transparency of budgets creates positive effects on government financial sustainability. The implementation of this measure leads to better investor confidence and more efficient financial resource utilization. The current financial situation of Ukraine requires more international financial support. The country needs to achieve complete transparency and accountability in financial aid fund utilization to attract new financial resources. The rise of domestic corruption cases will lead international partners to stop their willingness to provide additional financial support. Fiscal policy functions as the main instrument to minimize the social effects of war through rising income inequality. Social justice achievement demands targeted support programs for internally displaced persons, war veterans, and their families who lost loved ones or remain missing. The government must implement fiscal mechanisms that will safeguard the social protection system from negative impacts and stimulate economic growth through new productive sectors. The current situation demands immediate financial reform, which will provide transparent public financing for essential social needs while rebuilding public trust.

Let us consider the issue of the vector of European integration and the need for international coordination of fiscal policy. Ukraine's European Union accession strategy defines the key directions of its post-war fiscal policy. EU fiscal rules set clear criteria for a budget deficit of 3% and a public debt of 60%. One of the primary documents governing EU fiscal rules is the Stability and Growth Pact. It should be noted that this document aims to prevent cross-border spillover effects from negligent fiscal policies of member states. EU rules aimed at ensuring macroeconomic stability represent a significant challenge for Ukraine. Indeed, the country is currently facing an unprecedented increase in its public debt and budget deficit due to the war. However, it should be noted that even in EU countries, actual results sometimes exhibit a procyclical character, deviating from the intended cyclical principle. It is therefore important for Ukraine to implement a gradual but consistent adaptation of its budgetary framework to European standards. It is worth noting that Ukraine must adopt the primary legislation requiring harmonization with EU legal standards by 2027. However, no formal legislation is expected to be adopted. It is important to start implementing the regulatory framework within the next two years and to develop a roadmap to achieve fiscal targets with a view to European integration. Fiscal expansion in the world's leading economies can positively impact other countries, stimulating growth in production and investment. It should be noted that ensuring stable and predictable external financing flows is important to cover the budget deficit. In this context, in addition to supporting the exchange rate and guaranteeing social payments, the role of the EU as a key financial partner of Ukraine is vital. It is well known that the EU has provided significant amounts of macro-financial assistance and grants to rebuild Ukraine's damaged economy and social infrastructure over the past three years. Effective use of financial assistance is important to maintain confidence and attract new financial resources. It is also worth mentioning that other institutional partners of Ukraine, such as the IMF and the World Bank Group, also provide advisory and technical assistance, which will undoubtedly be valuable for implementing tax reforms in Ukraine shortly.

It is now worth identifying the differential impact of financial inclusion on financial stability. It is important to understand that in most countries with low levels of financial development, financial inclusion is positively correlated with financial stability. At the same time, it is negatively correlated with inflation. It follows that greater access to financial services (banking services, loans, insurance, investment products) for the population and businesses can help strengthen the economy and stabilize prices. Greater financial inclusion can reduce the shadow sector and increase the volume of deposits in the banking system. We must understand that under such an impact, access to financial services and instruments can improve the effectiveness of monetary policy, since the majority of the population and businesses will be integrated into the country's financial system. At the same time, we note the pattern that in countries with a high level of financial development, financial inclusion can, on the contrary, be associated with inflation. In developed economies, where financial inclusion is already high, its future growth may lead to excessive credit expansion. At the same time, we note that many developed economies are characterized by the formation of bubbles in asset markets. Their robust financial systems are exposed to systemic risks. Excessive access to credit resources can increase inflationary pressure and risks for the country's banking sector. The financial system of Ukraine shows increasing lending activity. The economy's sectors receive excessive credit funding because businesses and households lack sufficient financial resources. The country's budgetary system faces substantial strain from credit to businesses and individuals, requiring monitoring and legislative oversight. The current state of the country's financial sector demands immediate budgetary measures because of its current development level. At the same time, we emphasize that financial inclusion strategies should be developed in such a way as to ensure the availability of financial services for all interested citizens. If citizens need financial resources from various sources, an appropriate infrastructure should be created and operated.

We understand that financial stability in the context of fiscal policy manifests itself differently for different economic systems in different countries. We will consider key indicators in selected countries to understand the specifics of such a policy. An indicator that gives an idea of the prerequisites of fiscal policy and directly determines the state of financial stability is the country's gross debt. Take Ukraine and several other OECD countries, including Israel, as an example. The selection of countries considered differences in geographical representation, the development of economic systems, and the state of peace or the presence of military operations. Of course, changes can only be observed dynamically, in our case, over 2004–2025. The results of the study of the gross debt position of the studied countries for 2004–2025 and the forecasts for 2026–2027 are presented in Figure 1.

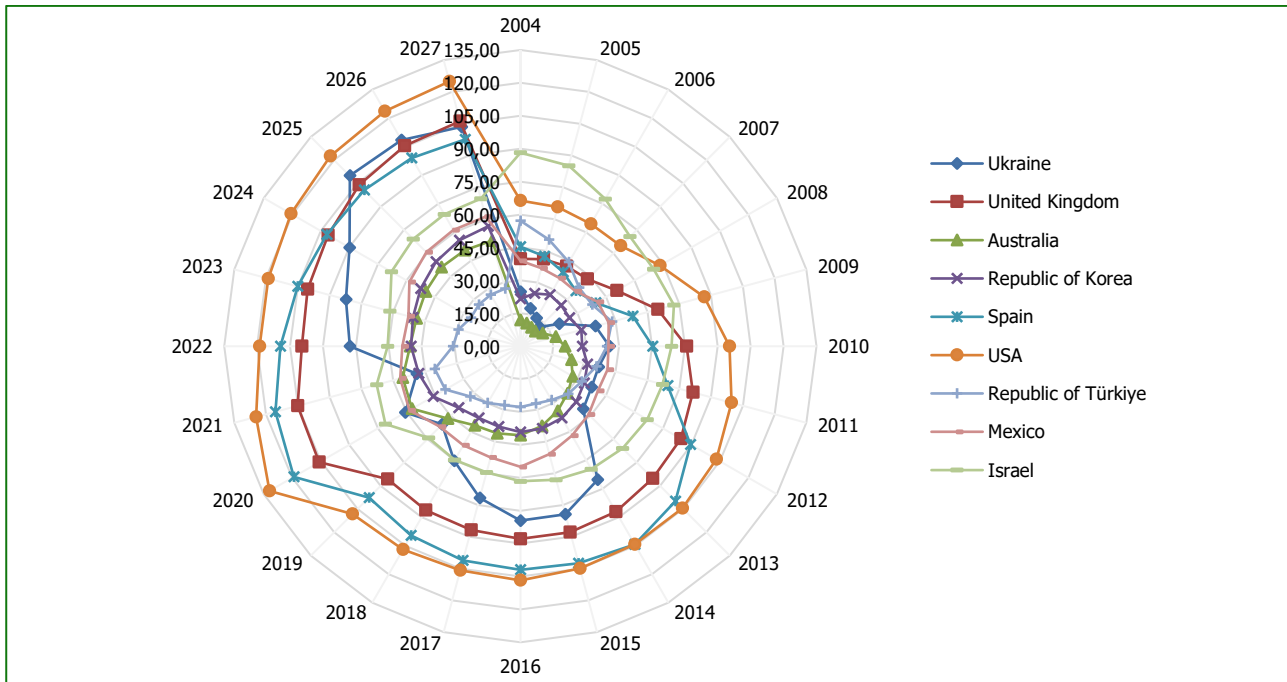


Figure 1. Gross Debt Position by country during 2004–2027, % of GDP. (Source: calculated by the authors based on the IMF Dattamapper)

As shown in Figure 1, the dynamics of gross public debt (% of GDP) for selected countries for the period 2004–2027 highlight trends in both developed (the United States, Great Britain, Australia, Israel, South Korea, Spain) and developing (Ukraine, Turkey, and Mexico) countries. The data allow for a comparison of the debt burden of states in the context of fiscal policy and financial stability. This approach is essential for studying Ukraine's financial stability during wartime and post-war reconstruction.

Thus, after analyzing the gross debt of the countries, we established the following findings: Ukraine shows a sharp increase in its public debt after 2013, correlated with the start of military operations in the eastern regions of the country and the occupation of part of its territories. The debt burden is growing particularly rapidly after 2022. It is estimated that by 2027, public debt will still exceed 90% of GDP, a limiting indicator for countries with unstable economies. Based on these dynamics, we can state an extraordinary fiscal crisis.

It is worth noting that the United States and the United Kingdom already have chronically high debt levels (around 100–130% of GDP). However, this situation is manageable for them thanks to developed capital markets, investor confidence, and strong financial capacity. In this case, we see a contrast with Ukraine, where even much lower debt levels pose a greater risk to financial stability.

It should be noted that countries such as the Republic of Korea, Israel, and Mexico have relatively low debt levels. Governments have managed to maintain stability through effective fiscal discipline. For example, after the 2008-2010 crisis, Spain experienced a rapid increase in its debt, which remains relatively high today. The policy of the government of this country is a policy of prudence in fiscal approaches. Comparing the case with Ukrainian conditions, we can argue that post-crisis recovery does not guarantee an automatic reduction in the debt burden.

The research shows that Ukraine operates its wartime fiscal policy in emergency mode, which leads to a significant rise in debt burden. The analysis of other countries shows that Ukraine stands among the most vulnerable nations when it comes to fiscal stability. Post-war recovery will require strict debt discipline. In addition, the government will have to restructure its external commitments. The active involvement of donors will play a special role for the country, without which a high debt level can hamper economic growth. It is also worth mentioning Ukraine's guidelines for European integration in the context of debt problems. The principles of the Maastricht criteria include compliance with the public debt limit of 60% of GDP. Therefore, the desire to join the EU must consider alignment with the aforementioned principles. Ukraine already significantly exceeds these limits, requiring special attention to fiscal responsibility as part of the integration process.

Another indicator that reflects changes in fiscal sustainability is primary net lending/borrowing (also known as primary balance). Figure 2 shows changes in primary balance in the studied countries during 2004-2025 and offers a forecast of this indicator for 2026-2027 (IMF Dattamapper).

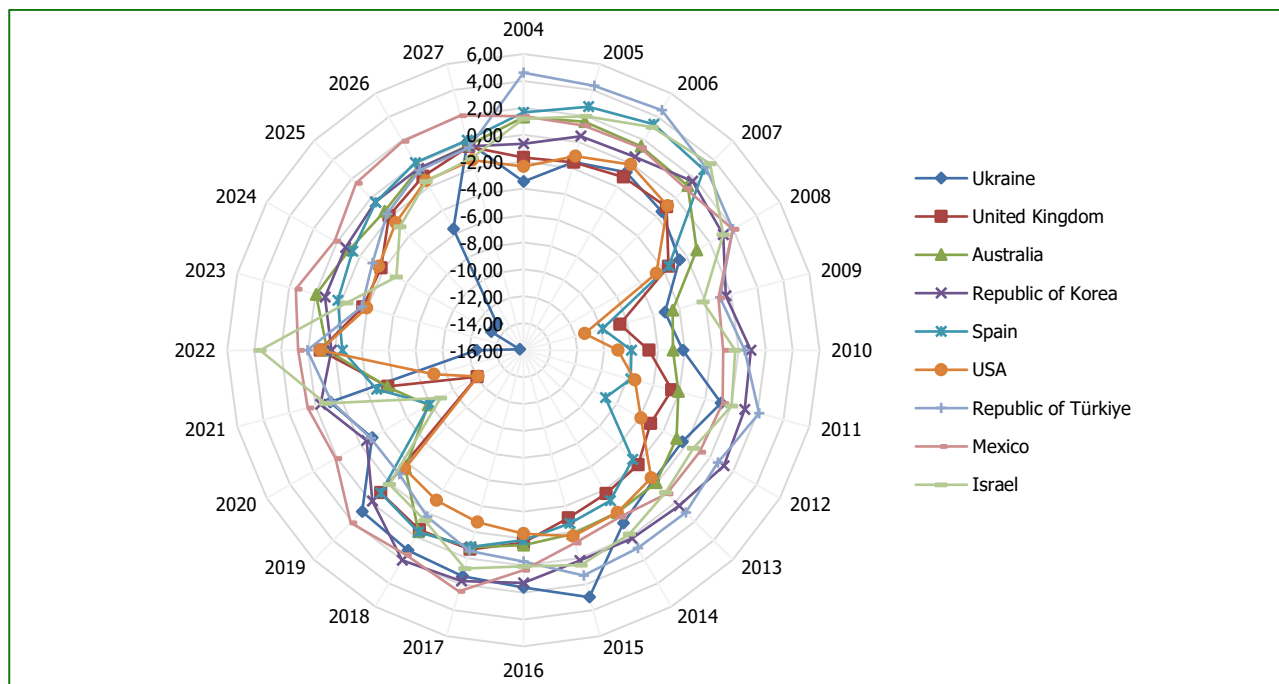


Figure 2. Primary net lending/borrowing (also referred to as primary balance) by country during 2004–2027, % of GDP. (Source: calculated by the authors based on the IMF Dattamapper)

Figure 2 illustrates the dynamics of the primary budget deficit/surplus (% of GDP) in selected countries for 2004–2027. The primary budget balance represents the financial difference between budget revenues and expenditures without considering debt service costs. The indicator calculation enables us to evaluate both fiscal discipline and public financial sustainability. The primary budget balance of Ukraine remained negative throughout most years after 2014 but experienced its worst decline in 2022–2023 when it exceeded 13% of GDP. The large-scale fiscal expansion is confirmed. The United States, together with the United Kingdom, Spain, and Australia, recorded major primary deficits during both the 2008–2009 financial crisis and the 2020–2021 coronavirus pandemic. The fiscal situation develops naturally because it provides suitable responses to unexpected macroeconomic force majeure events. The studied countries possess sufficient financial power to perform decisive fiscal measures that protect their long-term financial stability.

The Republic of Korea, Israel, and Mexico have stable budget balances because their fiscal policies are prudent and their financial system requires minimal public spending for stability. Turkey's budget financial situation is more stable than that of Ukraine and Spain, even though its budget balance has been negative in recent years.

The primary balance indicator shows deep fiscal shock from war in Ukraine during 2022–2023, which exceeds crisis but peaceful indicators of other countries. The research supports transforming Ukraine's fiscal policy direction toward domestic funding activation. At the same time, financing fiscal sustainability after the war will depend on debt restructuring and achieving a primary surplus, in many countries after periods of crisis (e.g., Australia or Israel). It should also be remembered that the vector of European integration implies compliance with fiscal criteria, where the primary budget balance plays a key role in ensuring long-term debt sustainability. Therefore, through tax reform, Ukraine must lay the foundations for future deficit reduction. The digitalization of public finances and expenditure optimization should be maintained as an essential practice. We would also like to emphasize that a comparative analysis with other countries shows that a return to budgetary balance is possible even in the most critical conditions, but only with a clear strategy.

It is worth noting the opinion of scientists Afonso A., Alves J., & Coelho J. C., who note that «the Pedroni (2004) panel cointegration tests point to the existence of long-term stable relationships between: (i) government revenues and expenditures; (ii) primary government balance and lagged public debt-to-GDP ratio; and (iii) public debt-to-GDP ratio and lagged primary government balance» (Afonso et al., 2025).

We need to talk about how this will affect financial development in general. Let us examine how the cyclically adjusted balance has changed for the countries we are considering in more detail - Ukraine, several OECD countries, and Israel. As in previous studies, we will analyze 2004–2025, and also try to forecast the cyclically adjusted balance for countries in the medium term for 2026–2027. We summarize all the data obtained in Figure 3.

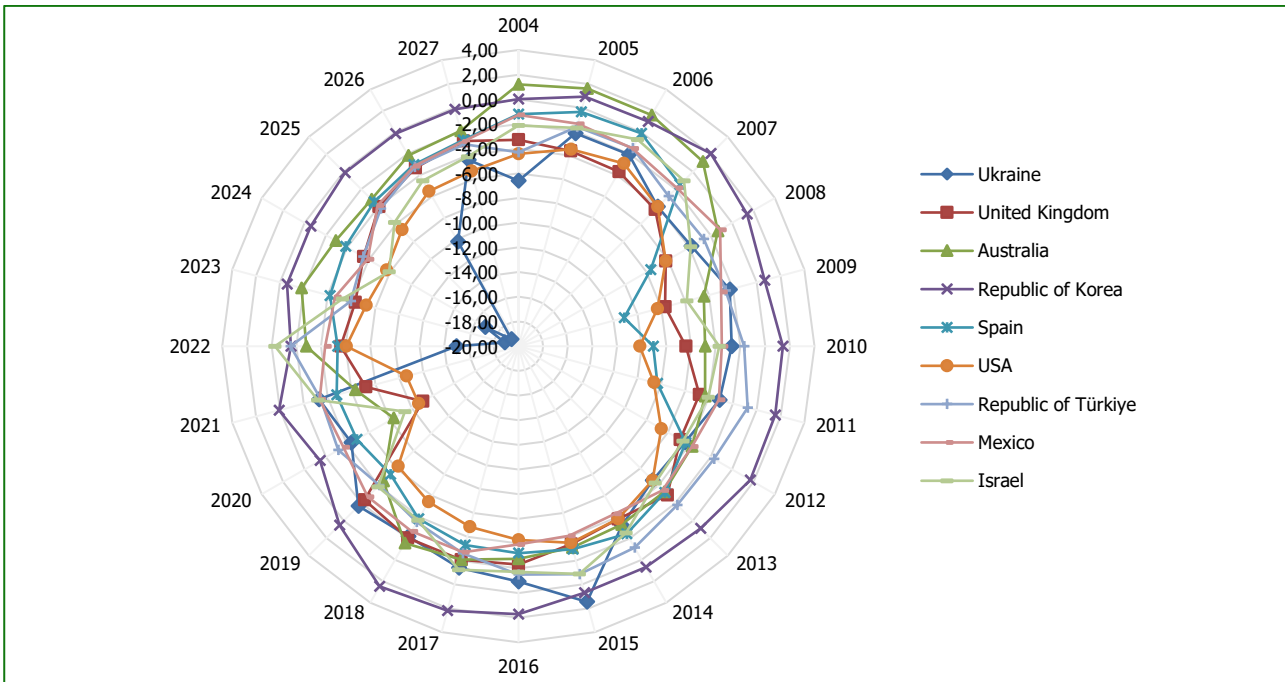


Figure 3. Cyclically adjusted balance by country during 2004-2027, % of Potential GDP. (Source: calculated by the authors based on the IMF Dattamapper)

Figure 3 shows the dynamics of the cyclically adjusted budget balance (% of potential GDP) for the selected countries for 2004-2027. We single out this indicator to assess the country's budget situation because it excludes the impact of the economic cycle. This methodological approach allows us to assess the real fiscal policy of the government. This indicator is significant for understanding fiscal sustainability in times of crisis, as well as in times of war. It is worth noting that Ukraine has a sharply negative cyclically adjusted budget balance in 2022-2023 (more than -17% of potential GDP), which indicates a large-scale fiscal stimulus, regardless of the phase of the economic cycle. It is worth noting that this level is the highest among all the countries in the sample and underlines the exceptional nature of fiscal policy in wartime. This is an unprecedented increase in defense spending. In addition, spending on infrastructure restoration and other social projects will increase. The financing is a response to an external shock, not a cyclical slowdown. The United States, Spain, the United Kingdom, and Australia all experienced significant deteriorations in their adjusted budget balances during global crises (2008-2009, 2020-2021), but none of these countries experienced the deterioration of Ukraine's figure at the onset of full-scale military aggression, namely in 2022-2023. At the same time, our research shows that even during severe economic shocks, countries avoided excessive fiscal expansion.

The adjusted budget balances of Israel, the Republic of Korea, and Mexico show minor changes in their fiscal policies. The budget balances or surpluses appear in some years, which indicates no fiscal overheating exists.

Thus, summarizing the study of cyclically adjusted budget balance trends in 2022-2023, we argue that Ukraine pursued a structurally expansionary fiscal policy. At the same time, this situation creates additional challenges for the sustainability of public finances in the medium term. It should also be noted that the exit from the military budget model will require a transition to structural fiscal consolidation. This vision implies reducing the deficit to an acceptable level of 3% or less, in line with European budgetary criteria. The cyclically adjusted budget balance analysis helps us determine the possibility of implementing a transitional scenario. The European integration of Ukraine, which shows growing momentum, needs a gradual approach to its current fiscal discipline. The fiscal attitude requires evaluating both the nominal deficit and the cyclical assessment of fiscal efforts.

So, most countries we looked at saw a significant increase in their gross debt-to-GDP ratios in 2020-21, a direct result of increased government spending. For example, the United States' debt exceeded 120% of GDP, Spain's was over 100%, and the United Kingdom's was over 100%. The following years saw some stabilization in debt growth as economies began to recover. Countries like Australia and South Korea maintained debt ratios relatively lower than those in major advanced economies. Turkey and Mexico also had manageable debt levels.

The majority of nations in our research expanded their public spending during 2020. The data from analysts indicates that COVID-19-related fiscal support measures have proven to be more effective. The United Kingdom and Spain dedicated 52-

53% of their GDP to government spending, while the United States used 36% of its GDP for anti-epidemic measures. The academic assessment reveals that government spending dropped substantially when COVID-19 reached its peak because most countries removed their emergency quarantine restrictions. Advanced economies experienced their biggest budget deficits since the start of the coronavirus pandemic. The United States and the United Kingdom experienced budget deficits exceeding 15% of their GDP, while Israel and Spain recorded deficits at 11% of their GDP during 2020. Several nations succeeded in enhancing their financial stability through their fiscal policy changes during 2022-2023. The Israeli government achieved a budget surplus amounting to 0.6% of GDP during 2022. Australia reached a budget surplus of 0.2% during 2023. Various national economies showed evidence of returning to fiscal consolidation strategies through their financial events.

In 2023-2024, military conflicts between Israel and its neighbors created new fiscal imbalances that exacerbated some of the earlier fiscal gains. Many countries maintained strong fiscal performance, thanks to pandemic-related reductions in revenue flows. In the United States, government revenue increased significantly, from 36.6% of GDP in 2020 to 42.1% of GDP in 2022. In Australia, the revenue-to-GDP ratio increased from 25.9% in 2020 to 28.7%. Their fiscal performance in 2023 suggests that their economic revenue-raising policies are sound. The fiscal consolidation speed across the studied countries differed significantly throughout 2020. Australia and South Korea demonstrated quick deficit reduction during 2020. The implementation of robust fiscal policies by governments indicates this outcome. The United States and the United Kingdom kept their deficits elevated because they needed to continue structural spending. The fiscal path of Israel experienced a post-COVID-19 recovery until the Gaza conflict caused a new fiscal decline. The Gaza conflict demonstrates to governments the need to adjust their financial priorities because of severe geopolitical disturbances. The long-term fiscal sustainability of each state depends primarily on its existing fiscal resilience, together with its institutional capacity when facing global shocks.

The current financial situation of Israel demonstrates this principle effectively. The nation shows impressive financial stability despite rising security threats, which lead to increased military spending. The nation maintains its financial stability through its diverse economy and its well-designed and flexible tax administration system. The ongoing conflicts in Israel remain substantial, but they have not led to a third reduction in GDP or significant national territory destruction. The fiscal performance of Israel faces penalties through deficit growth (from 0.6% surplus in 2022 to 6.6% deficit in 2024), yet it is within acceptable limits for an advanced economy. The situation in Ukraine requires an entirely different fiscal approach because it represents an existential war.

It is important to note that Ukraine's fiscal trajectory is not simply a "budget squeeze", but rather a fiscal collapse sustained by strong international support. In this sense, the concept of fiscal space should be defined. By this, we mean the ability of government agencies to increase public spending, or even cut taxes, without significantly threatening the country's financial position. It is important to note that countries with lower debt and deficit levels (Australia, South Korea, Turkey, and Mexico) have greater fiscal space. Countries with significant gross debt levels (the United States, the United Kingdom, and Spain) have less fiscal space. However, their large and diversified economies and their reserve currency status (the United States, the United Kingdom) provide greater borrowing capacity.

Let us determine which fiscal policy factors can be attributed to stimulants (factors that contribute to financial stability) and which to disincentives (factors that create risks for public finances). Thus, our study indicates that the stimulants are fiscal discipline, budget revenues, tax efficiency, institutional transparency, targeted spending, external financial assistance, and fiscal management reforms. We attribute the following indicators to disincentives: excessive budget deficit, growth in public debt, pro-cyclical policy, tax shadowing, spending inefficiency, crisis emission financing, and short-term debt structure. Let us try to establish the relationships between the factors. In particular, the following relationships are traced: the deficit affects the growth of debt, which causes an increase in service costs and ultimately forms a new deficit; tax efficiency, together with a decrease in shadowing, affects the growth of revenues, which in turn causes a decrease in the deficit; foreign aid affects the temporary closing of the deficit, which over time creates a risk of addiction, which develops dependence on financial assistance; institutional transparency affects the reduction of inefficient spending, which affects the growth of trust, and further determines the reduction of the cost of debt; targeted spending forms GDP growth, which further affects the reduction of the debt burden.

Based on our established relationships, we will develop an econometric model that formalizes them and proposes a fiscal stability index (FS_t). The model includes such indicators as: the level of fiscal discipline (FD_t), tax revenues (TR_t), tax administration efficiency (TE_t), the volume of external official assistance (TA_t), the budget transparency index (IT_t), the share of inefficient/non-targeted expenditures ($INEF_t$), the share of emission financing of the deficit (EMI_t), the volume of losses from the shadow economy (TV_t), public debt ($GOVD_t$), and the degree of pro-cyclicality of fiscal policy (PCY_t). Based on our findings, the formalized structure of the model that determines the fiscal stability index is as follows:

$$FS_t = \beta_0 + \beta_1 FD_t + \beta_2 TR_t + \beta_3 TE_t + \beta_4 TA_t + \beta_5 IT_t - \beta_6 INEF_t - \beta_7 EMI_t - \beta_8 TV_t - \beta_9 GOVD_t - \beta_{10} PCY_t + \varepsilon_t$$

where β_i are estimates of model parameters (all weight coefficients β_i will be equal to 0.1), ε_t is the random error.

Note that all weighting coefficients β_i will be equal to 0.1.

Using open data on the leading indicators of the model, we calculated the index data for 2025-2027 for Ukraine and established the following. In 2025, this indicator was -0.02, which indicates very low fiscal sustainability. In 2026, FS will be 0.048, and in 2027 it will be 0.059. Of course, the predicted values are positive, but low. The growth of this index in 2027 may be due to an increase in revenues, discipline, and transparency, as well as a gradual decrease in debt. The calculations show gradual stabilization, but the index level remains insufficient for long-term sustainability.

It should be noted that, first and foremost, ensuring financial stability requires restructuring public debt. Ukraine's external debt has reached critical levels, approaching 100% of GDP, which limits the budget's ability to finance future recovery. The priority in this regard is to reach agreements on partial cancellation or extension of debt service obligations to external creditors, especially private ones. At the same time, it is necessary to limit the attraction of resources on terms unsuitable for growth potential and to prioritize the provision of grants to partners. The idea of accessing confiscated Russian assets as a source of financing should be implemented in the form of a long-term financial instrument or trust fund. A vital aspect of a country's financial stability is the mobilization of the country's domestic revenues.

Ukraine's tax system suffers from excessive fragmentation. The obvious disadvantages are the widespread practice of tax evasion and numerous tax benefits for many categories of taxpayers. In the post-war period, the country's main focus should have been on indirect taxes. These taxes include VAT and excise taxes. The implementation of indirect taxes produces less harm to investments. The government should establish a progressive income tax scale with a surcharge for high incomes to preserve administrative simplicity and enhance social justice. The government should implement tax incentives to reintegrate migrant workers while reducing their income tax burden.

The nation requires immediate budget expenditure reform to maintain financial stability. The social protection system requires immediate assessment as its first step. The government should evaluate methods to merge assistance programs while developing a unified database for social assistance beneficiaries. The voucher model represents the best approach to finance education and healthcare because it will boost service provider competition.

The fourth axis for ensuring financial stability relates to the transparency and efficiency of the budgetary process. We argue that transparency is only possible by eliminating tax breaks and special regimes. It would be preferable to shift all state support to direct transfers. Establishing a fiscal council, an independent body for evaluating and forecasting budgetary decisions, would be very positive. Moreover, such monitoring is relevant to European approaches to public financial management. Moreover, the continued digitalization of public services will reduce corruption risks and likely improve the efficiency of public spending.

The next element of financial stability is the system of intergovernmental relations. Of course, decentralization, which was initiated even before the full-scale war, should receive a new impetus. The creation of a competitive environment for regional development will be facilitated, first of all, by expanding the tax base at the local level (for example, the possibility of a property tax).

The government should also provide access to local borrowing instruments, which include loans and debt securities. The policy on the public sector of the economy deserves special attention. It is advisable to reduce the state's share in strategic enterprises through transparent privatization with the participation of potential investors and international financial institutions in the post-war period. A balanced policy in this regard will reduce quasi-fiscal risks and increase the efficiency of future management.

Of course, we note that budgetary policy development must be closely linked to European integration processes. Harmonization with the EU in the field of public finances requires introducing transparency practices. Equally important is the establishment of management of public resources based on the principles of efficiency. At the same time, it is important to implement the Budgetary Framework Directives. We understand that in the event of large-scale military aggression, it is impossible to conduct multi-year budget planning. However, if the military operations stabilize and the country's financial and economic recovery begins, this approach is quite realistic.

The European integration path of Ukraine serves as a fundamental element for building post-war fiscal stability in the country. The implementation of EU fiscal rules will allow Ukraine to conduct an active investment policy while increasing inter-

national partner confidence. The failure to advance fiscal reforms threatens integration progress, which might block European financial fund access. All future fiscal decisions, including budgeting and gross debt management, must be evaluated for their impact on integration progress. The estimated cost of Ukraine's post-war reconstruction will reach at least USD 500 billion. This amount represents a significant long-term investment. It is worth noting that these funds represent both a significant budgetary burden and a unique opportunity. The recovery will require international grants, concessional loans, direct investment, and domestic financing.

DISCUSSION

Scientists Afonso, A., Alves, J., and Coelho, J. C. argue about the adaptability of fiscal policy (Afonso et al., 2025). Our research results also confirm this thesis. The conclusions from the scientists' research can be taken into account in Ukraine, where the initial conditions are different, including military spending and public debt exceeding 60% of GDP. Therefore, corrections to the model must consider military spending and international financial assistance resources.

The research of scientists Banna, H., Alam, A., Chen, X.H., and Alam A.W. (Banna et al., 2023) supports our view that energy security substantially impacts the country's fiscal stability. The country's fiscal stability. In addition, it is worth emphasizing the importance of studying the energy transition in the post-war period. This factor is inherent in Ukrainian realities, but we did not use it. We understand that this indicator has a minor impact on fiscal stability compared to those we indicated in the article. This approach will strengthen the relevance of the topic of fiscal stability.

In the study by Beetsma, R., it is possible to agree that institutional discipline (fiscal rules) should become a key budget element (Beetsma, 2022). It should also be noted that the Ukrainian context requires flexibility; therefore, it is necessary to design rules that allow for "emergency" fiscal regimes. At the same time, standardized European approaches require adaptation to national conditions.

The scientific opinion of Cuadrado-Ballesteros B. and Bisogno M. (Cuadrado-Ballesteros et al., 2022) about the positive relationship between government budget transparency and financial sustainability in 110 countries is shared by us. The authors show that transparent financial practices result in better financial outcomes for governments. The lack of transparency in government activities not only affects the financing of countries in peacetime but also has a major negative impact on the attractiveness of international aid in wartime.

We do not fully share the opinion of scholars Gleißner, W., Günther, T., and Walkshäusl, C., who noted in their study that "there is currently no consistent and definitive theory for defining financial sustainability and its relationship with stock market returns" (Gleißner et al., 2022). Their study may have aimed for a more microeconomic approach. However, at the macroeconomic level, several financial indicators monitor a country's financial health.

Applied developments, in the form of a model used by scientists Ilori, A. E., Paez-Farrell, J., and Thoenissen, C., clearly demonstrate that fiscal initiatives must be supported by monetary measures to avoid an increase in inflationary pressures (Ilori et al., 2022). At the same time, if you follow this model, Ukrainian support programs should be synchronized with a monetary mandate. We are also skeptical of the opinions of some of these scientists, as they do not consider specific conditions, including international subsidies. International financial assistance can weaken or strengthen fiscal multipliers in Ukrainian realities.

We share the opinion of researchers Johansson-Nogués, E., and Leso F. that the EU's actual geopolitical role towards Ukraine remains limited (Johansson-Nogués et al., 2025). Therefore, Ukraine should develop domestic financial institutions to reduce its dependence. However, EU budgetary instruments are important, even in specific, limited measures. Therefore, these instruments must be systematically implemented in Ukrainian financial reforms, particularly the contractual framework for EU macro-financial assistance.

We agree with researchers Malla, M. H., and Pairote, P., that consolidating fiscal progression will reduce inequality and contribute to financial sustainability (Malla et al., 2022). However, we have some comments to make on their research. In particular, during times of war, a dual challenge arises: a shrinking tax base and, at the same time, an increase in defense spending. Therefore, fiscal models should combine progressivity with support for small businesses and foreign investment, given that direct taxes alone will not be enough to cover deficits.

In their article, researchers Muslim, M., Ilyas M. F. G. B., and Sani, A. clearly describe the tools that emphasize the need for clear rules and an institutional framework (Muslim et al., 2024). Tools of this type can be considered automatic mechanisms and counter-cyclical costs. At the same time, although generalizing, the SLR methodology used by the authors

requires checking empirical cases. In particular, it would be helpful in Ukraine during the general war to compare the effectiveness of tax or debt reform for 2022-2024.

We support the opinion expressed by scientists Oanh, T. T. K., Van, Le T., and Dinh, Le Q., that the financial availability of services and tools is the basis for fiscal stability (Oanh et al., 2023). Implementing digital inclusion programs in Ukraine to stimulate income stability and reduce the shadow sector is also advisable. However, we have some reservations. In particular, the model presented in the study does not consider the specificities of underdeveloped countries in war situations. First, it does not involve military budget shocks, liquidity deficits, or international transfers. Therefore, it is necessary to supplement the fiscal stability model with crisis variables when conducting such studies.

We fully agree with the opinion of scientists Opatska, S., Johansen, W., and Gordon, A., according to which flexible fiscal policy, improvised management, and verbal recovery strategies increase the effectiveness of economic stabilization (Opatska et al., 2023). However, a specific reservation regarding the source of the scientists' research is mainly qualitative. To develop budgetary instruments, it is necessary to add a quantitative analysis of the effectiveness of adaptive models or the results of an improvised fiscal response.

CONCLUSIONS

Analysis of Ukraine's fiscal policy showed the need for government measures to ensure the country's survival. This study found that the intense concentration of financial resources made it possible to support the country's defence. In addition, the social benefits needed to ensure the social guarantee of the population were well paid. It was also noted that financial resources have been actively allocated to Ukraine's infrastructure to support the country's livelihood. Significant concentrations of financial resources led to record budget deficits and contributed to the growth of public debt. The main threats to financial stability are undoubtedly the consequences of the coronavirus pandemic and a large-scale invasion of Ukraine. The main threats identified are related to increased government spending on defense and social protection. The negative impacts that Ukraine has experienced in recent years have led to a sharp decline in budget revenues and increased dependence on debt. Studies have shown that these factors contribute to chronic solvency risk. In the long run, the expected bankruptcy requires systemic reforms in the areas of taxation and public financial management. Evaluations of international aid have demonstrated its key role in maintaining macro-financial stability. Grants and external loans have financed Ukraine's budget deficit. Moreover, money from foreign partners helped support bank liquidity and ensure the resilience of the banking system. We can safely say that the significant financial assistance allocated has helped to ensure social benefits. Experience shows that over-reliance on international financial resources can jeopardize future financial independence.

The identified needs of European integration demonstrate the importance of aligning Ukrainian fiscal policy with the principles of transparency, responsibility, and accountability. The need for digitization of budgetary processes is demonstrated, and the need to implement European practices in public debt management is confirmed. Indeed, reducing the country's debt dependence is the basis for strengthening the confidence of investors and strategic partners.

An analysis of EU member states' European legislation showed that fiscal discipline and stable rules enable crisis resilience. It was confirmed that the adaptation of Ukraine's approaches to EU debt sustainability criteria would ensure greater predictability of fiscal policy in the post-war context. The formulated conceptual approaches have shown that postwar financial strategy should combine economic recovery with the modernization of major financial institutions. The use of the Budget Stability Index revealed the dynamics of the gradual strengthening of the financial system. At the same time, the importance of debt restructuring was emphasized. Moreover, the process of active digitization and unconditional growth in long-term domestic revenue sources deserves particular attention.

The systematization of fiscal response tools has shown that tax incentives can revive the national economy. It is also worth highlighting the introduction of public-private partnership mechanisms to develop the country's economic relations. Public investment in promising areas of the financial and economic system will accelerate the development of society. The above tools are proven to provide a basis for restoring confidence in public finances and lay the foundations for sustainable economic development.

Future research needs to develop detailed models that analyze how various post-war recovery scenarios affect Ukraine's fiscal stability. It is worth exploring different amounts and sources of external financing in the future. An important area of research is developing a debt restructuring strategy in the context of integration into the European financial sphere. Important methods of public debt management are optimizing the structure of the country's gross debt and issuing "green" bonds to finance the country's future revenues. Research on tax management includes reviewing existing indirect tax rates

and introducing tax incentives for potential investors. The experience of other countries that have successfully recovered from major conflicts since World War II can be valuable for future research on introducing best practices into Ukraine's financial system.

ADDITIONAL INFORMATION

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CONFLICT OF INTEREST

The Authors declare that there is no conflict of interest.

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ІНДЕКС ФІСКАЛЬНОЇ СТАБІЛЬНОСТІ В КОНТЕКСТІ ФІНАНСОВОЇ ПОЛІТИКИ: СУЧАСНІ ВИКЛИКИ ПІСЛЯВОЄННОГО ВІДНОВЛЕННЯ УКРАЇНИ

Інтенсивна концентрація фінансових ресурсів довела свою ефективність у підтримці обороноздатності країни. Проаналізовано основні загрози фінансовій стабільності, які становлять довгострокові ризики платоспроможності. У довгостроковій перспективі очікуване банкрутство вимагає системних реформ у царині оподаткування та управління державними фінансами. Оцінка міжнародної допомоги продемонструвала її ключову роль у підтримці макрофінансової стабільності. Водночас було зазначено, що надмірна залежність від міжнародних фінансових ресурсів створює ризики для майбутньої фінансової незалежності. Визначені потреби європейської інтеграції продемонстрували важливість гармонізації української фінансової політики з принципами прозорості, відповідальності та підзвітності. Продемонстровано необхідність цифровізації бюджетних процесів і підтверджено необхідність упровадження європейських практик управління державним боргом. Аналіз європейського законодавства країн-членів ЄС показав, що фінансова дисципліна та стабільні правила дозволяють забезпечити стійкість до криз. Підтверджено, що адаптація підходів України до критеріїв стійкості боргу ЄС забезпечить більшу передбачуваність фінансової політики в повоєнному контексті. Сформульовані концептуальні підходи показали, що повоєнна фінансова стратегія повинна поєднувати економічне відновлення з модернізацією основних фінансових установ. Індекс фінансової стабільності може бути використаний для виділення динаміки поступового зміцнення фінансової системи. Доведено, що державні інвестиції, механізми державно-приватного партнерства та податкові пільги є основою для відновлення довіри до державних фінансів і закладають основи для сталого економічного розвитку.

Ключові слова: фінансова стабільність, фінансова політика, фінансова політика, державний борг, дефіцит бюджету, післявоєнне відновлення, європейська інтеграція, фінансова прозорість, макрофінансова стабільність

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