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Anti-Crisis Fiscal Adjustment under the Conditions of Martial Law and Post-War Recovery in Ukraine

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Abstract: In global practice, uncontrolled imbalances in the fiscal space are a real threat to a country's financial security in the context of the new economic reality; destabilisation challenges as well as the risks of the spread of crisis phenomena under the conditions of uncertainty and geopolitical conflictogenity. Applying the results of theoretical and practical research based on the methods of factual and statistical analysis, it was determined that under conditions of modern full-scale turmoil, all components of fiscal regulation should be focused on the priorities of resilience in the period of martial law and sustainable development in post-war recovery. As a candidate for acceding the European Union, Ukraine will carry out reforms that will bring the country closer to world standards in all areas of financial relations. Therefore, the processes of reforming tax systems, including administrative regulations, should be focused on solving systemic institutional problems of change management.

Keywords: fiscal regulation, taxation, crisis, monetary policy

1. Introduction

The processes of reforming tax systems, including administrative regulations, should be focused on solving systemic institutional problems of change management. The general vector of state regulation in Ukraine, as well as in other countries with transition economies (see Economics Online, 2020; UNECE, 2022), should, as in national interest, be aimed at balancing the function of redistributing newly created values, in accordance with the priorities of countering the threats of wartime and with the aims of post-war sustainable development. It comes to the proportionality of the scale of mandatory payments to the revenue part of the budgets of all levels to the necessary military expenditures, as well as to the volume of services rendered to households, economic agents and other subjects of legal relations, which is guaranteed by the Constitution of a particular country. At the same time, the coordination of the network of structural divisions of global multinational companies (MNCs), and their financial and banking divisions should be built in such a way that fiscal planning is used in compliance with the law (Iefymenko, 2020), as well as in order to mobilise significant resources for innovative renewal of production through the use of high technologies. The opportunistic behaviour of stakeholders in the shadow sector, as well as of many taxpayers, often prevents the transparent rules of compliance with international norms and regulations accepted in the world from receiving support in a society and in parliamentary structures. This is often facilitated by inertia in the effective legislation regarding the predominance of formal procedures over the substance of taxable transactions; unfair tax burden, problems of carrying out accounting and reporting; and the lack of accountability of representatives of fiscal authorities for losses of legal entities, for example, in the case of untimely reimbursement of value added tax.

In connection with the acquisition of the status of a candidate for accession to the European Union, the strategic goals of Ukraine's future membership in the EU have been determined in the space-time dimension, which, in particular, provide for compliance with the European conceptual framework for tax policy coordination. Over the past ten years, the implementation of the EU – Ukraine Association Agreement (see Official Journal of the European Union, 2014), as well as other international obligations, has been accompanied by the consistent implementation of the following provisions: fiscal management on the principles of transparency, information exchange, fair tax competition; improvement and development of the tax system and tax authorities of Ukraine (enhancement of collection and control capacities with emphasis on VAT refund procedures, tax fraud control, tax evasion); exchange of experience and harmonisation of policies to combat tax fraud; gradual approximation to the tax structure defined in the EU acquis. Modern transformations in the fiscal and monetary sectors of the economy must take place on the basis of established supranational postulates, norms and regulations: stability, predictability, effective administration; supporting the competitiveness of economic agents in the world; coordinating taxation with the main principles of developing the market economy; regulating transfer pricing; and harmonising national and fiscal policies with EU directives and treaties. At the same time, if due to martial law, legislative acts (for example in the field of taxation), which differ from European standards, are adopted, it is necessary to introduce relevant procedures for their approval by the EU and the international community.

In global practice, uncontrolled imbalances in the fiscal space are a real threat to a country's financial security in the context of the new economic reality, uncertainty and modern geopolitical conflictogenity. The risks of the spread of crisis phenomena demonstrate complex interactions with political measures from a short-, medium and long-term perspective.

Sustainability of public finance is impeded by soaring interest rates, guaranteed protection of vulnerable social strata from the aftermath of high food and energy prices or by rising defence expenditure. At the same time, vulnerability to the shocks of prices on natural resources, which add to inflation and economic instability, is enhanced by delays in measures to counteract the climate crisis. Moreover, investments in climate transition face obstacles due to the reduction of budget opportunities.

2. Fiscal regulation in Ukraine in the context of modern geopolitical challenges and growing uncertainty

The interpretation of the phenomenon of uncertainty and its most essential components is discussed in the works of classic (Bernanke, 1983; Romer, 1990; Ramey & Ramey, 1995), as well as modern scientists (Bachmann & Bayer, 2013; Berger et al., 2016; Ilut & Schneider, 2014; Basu & Bundick, 2017), which focus on unpredictable financial and price market factors, the spontaneous influence of which, within the framework of the global and national economic space of the 20th and early 21st century, led to large-scale cyclical shocks. As a result, a sharp drop in production, job losses, a slowdown in investment processes, decreasing in demand, and level of well-being were periodically observed. Many researchers (Arellano et al., 2016; Caggiano et al., 2017) in addition, emphasised that, in the conditions of financial crises, effects multiplying the turbulent consequences of uncertainty became widespread.

After the inevitable failure in 2020, the International Monetary Fund (2021) estimated that global and regional recovery continued in 2021, but, due to the difficult epidemiological situation, its pace slowed down amid high levels of uncertainty.

During this period, uncertainty declined due to the spread of Covid-19, though its trends were less intensive. At the same time, many countries experienced the long-term negative consequences of the pandemic: a decrease in household incomes, an increase in the level of poverty, inflation, a shortage of financial resources, etc. In Ukraine, against the background of crisis disruptions due to pandemic phenomena, it was expected that in 2021 the fall in GDP of previous years would be covered, and the steady development of the economy in the forecast periods would make it possible to reduce inflation to the desired mark of 5% by the end of 2022.

Back in January, reputable international organisations predicted an intensification of the global economic recovery from the second quarter of this year after the short-term impact of the "omicron" stem (International Monetary Fund, 2022a).

In 2022 the war in Ukraine, as well as targeted sanctions, not only shattered the expectations of economic agents regarding economic recovery, but also caused another significant slowdown in world economic growth.

At the beginning of the current year, the global economy had not yet fully improved after the Covid-19 pandemic, but was regenerating with significant differences between the recovery paths of developed economies, on the one hand, and emerging and developing markets on the other. In addition to the war, the epidemiological consequences also led to a slowdown in business activity. Structural relationships in global integrated supply chains have been disrupted, exacerbating the risks of cascading global failures. In turn, accelerating inflation has led to a tougher monetary policy in many countries. Undoubtedly, the war will greatly delay the recovery of the world economy, slowing down development, and further accelerating rising prices, as well as risks to economic prospects.

It is important to note that the spring forecast of the International Monetary Fund (2022b) assumed that the conflict will not go beyond the borders of Ukraine, that further sanctions against Russia will not affect the energy sector (although the base scenario took into account the consequences of the decision of European countries to gradually abandon Russian energy resources and the embargo announced before 31 March 2022). At the same time, it suggested that the impact of the pandemic on health care and the economy will weaken during 2022. Life has confirmed that the tendencies of increasing conflict in various dimensions significantly hinder the search for compromise solutions in the field of economic policy. In addition to the direct humanitarian consequences, the significant reduction in the economy of many countries will lead to the spread of negative secondary effects all over the world through resource markets, trade and financial channels. According to international analysts, a tentative recovery in 2021 has been followed by increasingly gloomy developments in 2022 as risks began to materialise. Global output contracted in the second quarter of this year, owing to downturns in China and Russia, while U.S. consumer spending undershot expectations.

It is obvious that there will be a sharp double-digit decline in Ukraine's GDP (according to various forecasts, from 30 to 45% – depending on the scenario of further developments), as well as rising inflation (at least 20%).

Global economic growth is projected to slow from 6.1% (estimated) in 2021 to 3.6% in 2022 and 2023. That is by 0.8 and 0.2 percentage points respectively lower than the forecast for 2022 and 2023 in the January issue of the World Economic Outlook (International Monetary Fund, 2022c). After 2023, the world economy is projected to decline to about 3.3% in the medium term.

The crisis associated with the war in Ukraine is significantly different from many economic crises that we observed in the second half of the 20th and early 21st century. Russia's military invasion is accompanied by losses of human capital, and destabilisation of commodity markets. Long-term losses are expected to be much higher in emerging and developing countries than in developed economies.

Fiscal policy plays a special role when the situation develops unfavourably. It can protect the most vulnerable from the impact of high and rising food and energy prices on household budgets. More generally, government responses will be shaped against a challenging backdrop of high and rising inflation, economic slowdowns, high levels of debt and tightening credit conditions. Fiscal constraints are getting tighter as central banks raise interest rates to fight inflation.

At the complex background of high and soaring inflation, the slowing pace of economic development, high indebtedness levels and tightened loan conditions, the government will have to shape its countermeasures. As central banks increase interest rates to curb inflation, budget restrictions become even tougher. Tax and monetary policy is of special importance in the event of unfavourable outcomes. It can protect the most vulnerable household budgets from the results of high and rising food and energy prices.

At present the uncertainty is still visible, but now it originates from war rather than the pandemic.

Taking into consideration the current forecast scenarios of the IMF regarding the war on the territory of Ukraine, sanction measures against the Russian Federation, the further impact of Covid-19 on health care and the economy, stagflation threats, production volumes and employment in the world will mostly remain lower until 2026 than those that existed before the pandemic.

The probability of new shocks, and a qualitative deterioration of the structural consequences of economic turbulence at the mega-, macro- and micro-level due to the growth of uncertainty (Altig et al., 2020; Coibion et al., 2021; Johri et al., 2020) are caused by, among other things, factors of behavioural origin. Well-known authors consider the term "ambiguity" (Ilut & Schneider, 2022), which identically reflects the ambiguity of the influence of beliefs, expectations, intuition, electoral and political events on economic decision-making under standard conditions of expected utility. Precautionary behaviour, as an element of uncertainty within business cycles, contributes to increased savings, reduced staffing, and reduced debt obligations, which coincides with fluctuations in asset prices.

It is therefore clear that, in the near future, the role of the regulatory function of taxes will grow. However, this trend will only be acceptable if the fiscal function of taxes is balanced with the interests of the world community, united around the goals of an early end to the war and innovative plans for post-war reconstruction.

3. Anti-crisis tax policy in the conditions of martial law and post-war recovery in the context of balancing the national financial and economic space

3.1. Conceptual principles of determining the size of the state through fiscal normalisation of the redistribution of newly created value in the economy

The national resource potential largely depends on the degree of balance of state finances.

The unstable character of the trends of the ratio of budget revenues and expenditures and GDP often proves the fragility of the potential for the development of the social and economic system. The dynamics of such kinds of indicators in different countries and in Ukraine (see Figures 1 and 2) fully reflect the global shocks, destabilisation caused by borrowing, currency, tax and budget turbulence, as well as social disorder. Decrease in income with a simultaneous increase in expenditures is typical of the crisis period of 2009–2010 and the peak of the 2020 pandemic. The last crisis two years ago showed the importance, in the context of globalisation, of the common accord and responsibility of all nations to contribute to the just recovery and resilience of the post-pandemic world.

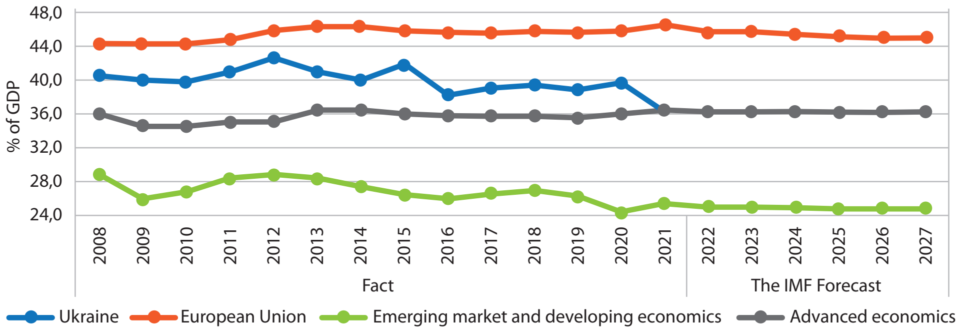

Figure 1. General Government Revenue, % GDP

Source: Compiled by the author.

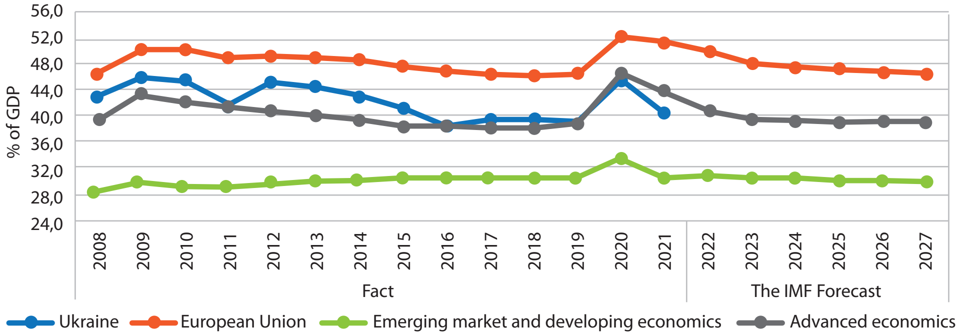

Figure 2. General Government Expenditure, % GDP

Source: Compiled by the author.

In 2021, the basic components of the new world policy started to form.

Compared to previous crises last year, Ukraine has shown greater resilience to global and national shocks. The recovery of the economy was observed, which made it possible to compensate almost completely for the decline the year before last. The domestic financial system demonstrated its resilience to shocks.

Forecasts and expectations of global stabilisation were destroyed in February this year. In the near future, we are likely to see a recession at both global and national levels. Accordingly, governments are likely to be forced to increase their debt burdens as well as consolidated budget deficits. The sharp rise in inflation, together with the manifestations of stagnation, is one of the key factors influencing decisions on the appropriateness of regulating the tax burden, taking the factors of income inequality and human well-being into account.

Indicators of the redistribution of newly created value through state and local budgets characterise the size of existing states to some extent.

For instance, in the European Union, where the share of the state is consistently higher than 40%, which is primarily characteristic of "welfare states", the transformation of various areas of government demonstrates a productive impact on the market environment through developed economic institutions based on political consensus. At the same time, the crises of the 21st century have shown that, despite the growing importance of centralised management decisions, a number of basic functions of many states have been performed with low efficiency. The gap between the benefits of the population from public spending on free services and high taxes and the dynamics of debt obligations grew, which was often accompanied in various countries by a low efficiency of government programs. Life has confirmed the veracity of the famous professor Ariely (2010) axiom that "free services are often the most expensive".

All this led to the unification of the world community around the need to strengthen the principles of transparency and accountability in the field of public financial management to a significant degree (International Monetary Fund, 2019).

In Ukraine, at the beginning of the war, companies operating in the Russian-occupied zones accounted for almost half of GDP. It is obvious that neither they nor their employees will be able to pay taxes in the near future.

Due to the efforts of the global community, large Ukrainian ports on the shores of two seas have been unblocked in order to transport Ukrainian grain to deal with the food crisis. However, Ukraine's logistic potential for export is extremely limited.

Taking into account the role of the economy in counteracting aggression, tax and customs rules have been simplified. The country's financial capabilities have almost reached zero, while needs have grown exponentially. The mode of operation of public finances under martial law is therefore radically different from the usual. The government is allowed, at its discretion, to redistribute any expenditure to priority military areas if necessary. Bonds of domestic government loans, including military ones, are being issued. Within the framework of balancing with inflation risks, along with business entities and citizens, the National Bank of Ukraine will acquire them at the expense of money emission.

Our state under war conditions greatly depends on external financing and external borrowings. In the near future, almost half of the government spending will be covered by such borrowings and grants. The current need for external support is about $5 billion a month.

As such, we can conclude that Ukraine is currently undergoing economic degradation. The country will lack its own financial resources that are needed for its rapid post-war recovery. Ukraine's economic dynamics will critically depend on external financial revenues.

It is obvious that the prospects for providing international assistance may sometimes be limited due to some objective factors of a political, economic and electoral nature, so, private foreign investment will be key to a speedy recovery. Receiving it requires a new economic doctrine. It can be assumed that Ukraine should already start getting ready for a corresponding reduction in budget funding, and large-scale restructuring of the entire system of public administration.

Within the state and local budgets of all levels, the challenges of destabilisation restrain the growth of expenses, despite the objective need to strengthen the administrative measures of economic uplift and social support.

The action of market forces, which for centuries prevailed at all levels of the economy (in rural markets, in industry, trade, on capital stock exchanges), is rapidly transferred across state borders. Undoubtedly, the convergence of national economies with the help of foreign trade and financial flows, as well as the mobility of labour, knowledge and technologies, requires new approaches to anti-crisis regulation.

The public finances of Ukraine, compared to other developing European countries, are characterised by high levels of both revenues and expenditures.

Currently and in the future until 2023, the ratio of income and expenditure parts relative to GDP in Ukraine will be preserved with a gradual increase in the level of debt security. At the same time, it should be noted that, on average, the values of these indicators in EU countries are now and in the future higher than in Ukraine, by approximately 3–4%.

Strengthening the role of the state in evaluating and supporting positive processes of developing certain sectors of the economy is extremely important. In this context, the directions of national anti-crisis tax regulation should be considered. State support should be provided to enterprises of machine building, and the aerospace industry, which has the potential for a full technological cycle of creating space complexes, as well as passenger, military transport and civil transport aircraft. Equally important are the development and implementation of tax preferences for small and medium-sized businesses.

Although among the EU countries, their worst debt obligations are consistently high and exceed the average European indicators, it is not correct to compare their general state of affairs with others.

In the euro zone, they are protected by macroeconomic stabilisation measures from the sole regulator of the monetary sector, the European Central Bank.

In other words, in our opinion, despite the presence of many conflicting opinions regarding the future of the single currency in the European economic space, the gradual European movement of integrating Ukraine will in any case be a significant institutional factor in countering external and internal threats of destabilisation.

3.2. Tax risks of the state and organisations in conditions of martial law and turmoil of the national economy due to crisis[1]

Fiscal and budgetary regulation provides a set of institutional and political measures for the state with the aim of supporting business activity, curbing fluctuations in aggregate demand, and its impact on the level of employment, inflation and other macroeconomic indicators of the economy. It is clear that, in the current crisis, emerging market countries and low-income developing countries, which are net importers of energy and food,

[1] See European Commission, 2016; OECD, 2004.

will suffer from higher world prices, which will put pressure on both economic growth and public finances.

In recent years, under the influence of internal and external factors, the impact of risks on the development of public finances has increased in most countries.

As a result, the tendency to unbalance them, to consolidate the balance sheets of the general public administration sector with significant deficits, and to accumulate public debt, have strengthened. The general stability of the national financial space is closely related to the state of the budget, the existing optimisation of financial flows and settlement operations, as well as the degree of protection of the interests of the participants in contractual relations.

The security of the country largely depends on the organisational possibilities of preventing administrative and criminal offenses in the monetary and financial sector; large-scale outflows of capital abroad; and its "erosion" from the real sector of the economy.

It is necessary to take the established habits of taxpayers into account.

In particular, we are talking about socio-cultural traditions: whether it is worth taking this or that risk for the sake of immediate or long-term benefits, or if it is necessary to insure against any potentially unexpected situations.

Therefore, the experience of the fiscal services of developed countries is of great importance for countries with a low tax culture from the point of view of strengthening the tax institution as a whole. For example, it is a well-known practice when regulatory acts single out transactions that are legal in themselves and do not entail taxation, but are carried out in aggregate only in order to avoid it. That is, it is considered that actions based on this technology of tax evasion, in fact, differ from a tax crime or its planning, as well as from sham contracts. In order to prove the incompatibility of this behaviour with the spirit and essence of tax rules, although it is absolutely legal in form, it is necessary to provide arguments that this or that operation was carried out without any significant consequences for business.

According to Coase and Williamson (1993), the amount of transaction costs largely depends on the quality of the mechanisms of adaptation to the changed conditions. The nature of adaptation to changes depends on the characteristics of the interaction between the contract participants. It is about either the market or the administrative order of interaction. At the same time, the transition from autonomous to coordinated adaptation is accompanied by an increase in costs and, also, the risk of so-called post-contract opportunism, when any of the participants can abandon their original intentions, convinced that, under new circumstances, it is no longer profitable for them. In other words, for the formation of norms and rules of behaviour within the framework of the fiscal space in order to avert the threats associated with the "tragedy of commons" (Hardin, 1968), it is necessary to create social institutions that can help to prevent difficulties caused by social dilemmas based on cooperative interactions.

Moreover, the desire to minimise the tax burden can be explained by the so-called rational expectations of the taxpayer. It is generally accepted that paying taxes is not beneficial to entrepreneurs from an economic point of view, and therefore, comparing estimates of the scale of the benefit received and the risks of punishment, they tend to hide the income that should be taxed. Rates of the tax burden, the probability of detection of the fact of evasion and the amount of fines are factors that determine the choice in the decision-making process by rational taxpayers (Allingham & Sandmo, 1972). Some foreign scientists expanded this model, taking the specifics of the effect of various types of taxes, utility functions and the influence of corruption into account (Cremer & Gahvary, 1994; Boadway, 1994).

Compliance with formal taxation rules is closely related to solving the problem of improving the tax culture. An important area of improvement of national fiscal systems is therefore the formation of tax planning norms, not so much related to the optimisation of taxation, but to the need to manage tax risks. For the organising and planning on-site inspections in accordance with the best global practice, tax authorities currently use various technologies to identify risky areas in the activities of economic entities bordering on tax offenses. At the same time, the taxpayers are motivated to refuse tax minimisation tools voluntarily, as tax authorities make assessment criteria generally accessible. Therefore, comprehensive support for actions that improve the culture of tax planning is urgent. First of all, the key is increasing the level of economically justified tax legislation that meets the needs of modern development, reflecting in it the achievements of social sciences, significant for the practice of regulation, which contribute to the achievement of important social results. The technical and legal improvement of the general state of legality needs to contribute to the gradual convergence with European supranational rules, to relieve the employees of the tax department of the task of minimising taxation, despite possible tax risks.

In this regard, the state's policy in the field of tax planning should provide for methods of influencing business entities so that their behaviour corresponds to the public interests of the state. It is necessary to influence how the reaction of entrepreneurs to regulatory guidelines is formed both individually and in a group, and characteristic of a certain social group, industry, or mode. If the action of tax levers is accompanied by noticeable redistributive consequences, it is necessary to monitor the probability of generating signals that lead to the emergence of opportunistic behaviour related to non-payment of taxes on a constant basis. In the latter case, we are talking about the risks of a reduction in savings offers, which negatively affects the processes of forming share capital and the company's activities as a whole. In any case, regardless of one or another regulatory sphere of the fiscal space, tax forecasting and administration are accompanied by both value criteria and cognitive processes.

In this context, it is important to develop certain standards of behaviour in the field of taxation among society, which will over time allow the internal needs of individuals to observe the laws to form.

To do this, the attitude of taxpayers to the work of fiscal authorities and tax legislation must be constantly assessed.

No less important are the features of the state and social system. The fact is that, with large amounts of shadow capital and the spread of corruption, as well as the presence of an oligarchic social class at the state level, completely asymmetric decisions can be made on the problems of the tax burden.

Therefore, one of the first positions in terms of post-war reconstruction in Ukraine is to comply with the European principle of tax justice. Such actions should be accompanied by the cohesion of society and the authorities around the goals of building a sustainable and resilient national socio-economic system.

The risks of non-payment of taxes depend on the rational, pragmatic choice of entrepreneurs with awareness of the possible threat of punishment or on the perception of taxes as a necessary source of public welfare (Becker, 1978; Pass et al., 1988; Buchanan, 1999).

In the period after the introduction of the martial law regime in Ukraine, the approach to the provision of tax benefits was changed. The emergence of force majeure at the national level required the regulatory function of taxes on business activities to be strengthened. Such innovations should be accompanied by a certain reformatting of measures to combat non-compliance with current norms and rules. It is an issue of strengthening standardised procedures for neutralising of such probable risks.

Since a number of systemic changes aimed at reducing the tax burden, primarily for small and medium-sized businesses, have been introduced, the strengthening of preventive measures is foreseen to prevent fake transactions in the field of activity of large and multinational companies, which are associated with aggressive tax planning. Undoubtedly, in the same context, on the basis of transparency and accountability based on modern digital technologies in the administration, analytical and control functions will be strengthened in relation to the quantitative and qualitative components of financial and non-financial information flows. This, on the one hand, will make it possible for the number of on-site tax audits not to increase, and on the other hand, it will contribute to the timely detection of probable fraudulent schemes for tax evasion.

It is considered appropriate to exempt from paying mandatory payments to the state and provide tax reporting to the subjects of the simplified taxation system with small volumes of business activity during martial law, when their activities cannot continue. At the same time, it is necessary for such taxpayers to resume reporting and paying of mandatory dues when it becomes possible to produce goods and services under martial law, or thereafter. In addition, precautionary measures are needed so that such benefits cannot be used by entrepreneurs whose activity in value terms exceeds the established limits.

In essence, the same reservations apply to entrepreneurs in the fields of big business and multinational companies, as it is possible for large business to pay 2% sales tax instead of corporate income tax and value added tax.

Within the framework of risk management, monitoring the use of such benefits must include the results of a quantitative assessment of the use of preferences under martial law. It should be borne in mind that, for example, the share of taxes from the activities of small business entities in Ukraine was up to 10% of local budget revenues before the war. In addition, with significant amounts of financial assistance from friendly states, Ukraine will demonstrate that domestic taxpayers are conscientious about their obligations.

A sharp decline in tax revenue during wartime in Ukraine has been accompanied by the growth of international financial support. Undoubtedly, to maintain a high level of trust in our state, the principles of transparency and accountability should be enhanced. Further cooperation between business and public authorities will require common approaches to counteracting compliance risks. Hence, adopting and implementing further fiscal innovations should be based on better-informed decisions.

Such functions are usually entrusted to independent fiscal bodies created, for example, by the state Parliament, or to authoritative public organisations.

At the same time, it is worth considering that, according to Pillar 2 of the large-scale plan to reform the international tax system for large business – Statement on a Two-Pillar Solution to Address the Tax Challenges Arising From the Digitalization of the Economy (OECD, 2021) – the global minimum tax rate is 15%.

Figure 3 shows the data on the level of provision of expenditures of the consolidated budget of Ukraine with tax revenues in January–June 2022, which indicate a general trend of a decrease in the absolute amount of tax revenues and an increase in state expenditures.

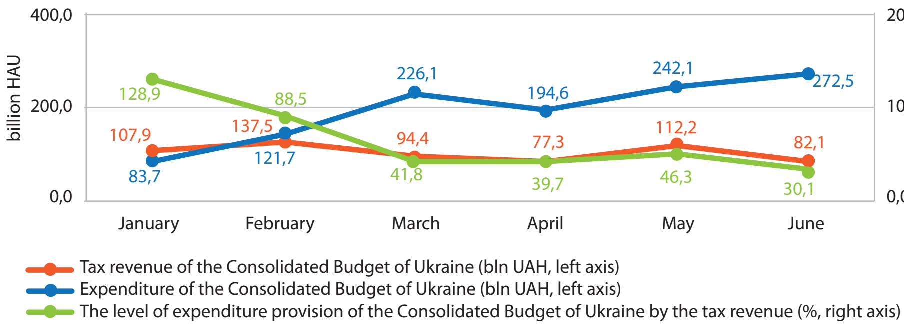

Figure 3. Level of ensuring the expenditures of the Consolidated Budget of Ukraine by tax revenues in January–June 2022, %

Source: Compiled by the author based on the indicators of the implementation of the Consolidated Budget of Ukraine in January–June 2022 (www.mof.gov.ua/uk/budget_2022-538).

The indicator of ensuring expenditures of the consolidated budget of Ukraine align with tax revenues has a general tendency to decrease. If, in January 2022 tax revenues exceeded consolidated budget expenditures by 28.9%, then already in February the level of expenditure coverage by these revenues was 88.5%, in March – 41.8%, in April – 39.7%, in May – 46%, 3%, and in June – 30.1%. Such low provision indicators indicate that, in the period analysed, non-tax revenues, in particular borrowing and international transfers, play a large part in financing expenditures. The trend that has developed is extremely threatening from the perspective of ensuring the fiscal security of the state.

4. Harmonisation of fiscal and monetary policy: strengthening the resilience of the national economy

After the crises in 2008–2009 and 2020, the conceptual principles of the formation and implementation of monetary and fiscal policies, and their harmonisation as components of the protection of the financial security of the state were defined and improved.

Standardised immune mechanisms of diagnostics, independent examination, including public standards of correcting threatening signs in the activity of world and national financial and banking structures were implemented in modern management practice.

In accordance with threshold values identified with established and recognised quantitative as well as qualitative indicators of operational activity, mandatory for the introduction of adapted monitoring and regulatory procedures, *inter alia,* has been provided. The problematic issue has become the need to standardise compliance control systems at all stages of the functioning of economic entities, as well as to impose fines or sanctions on those guilty of non-compliance with the rules in the regulatory and legal framework.

It should be emphasised that the strategic goals in the field of financial management are already being considered by the world community, in close connection with an in-depth analysis of financialisation trends.

Flexible exchange rates, where possible, can help cushion shocks. Excessive volatility or disorderly fluctuations in the value of the national currency can cause negative consequences for the economic and financial balance. Therefore, we emphasise that it is also important to refrain from competitive devaluation and using exchange rate targets to obtain benefits. Thus, reliable economic determinants, sound policy and support for the stability of the international monetary system will contribute to active and sustainable economic growth based on balanced investment decisions.

Under the current conditions of martial law and the future post-war reconstruction in Ukraine, it is highly necessary to strengthen the resilience of the components of the fiscal and monetary space to exogenous shocks.

The dynamics of the discount rate of the National Bank of Ukraine rose from 10 to 25% in June. At the beginning of the war, the transition from a flexible exchange rate policy to a fixed one was quite justified, as it made it possible to maintain stability in the foreign exchange market. However, fixing the official exchange rate has led to the risk of the money market falling apart into segments with the possibility of collecting speculative rents. In fact, there is a gap in exchange rate levels between the cash and non-cash markets, which creates incentives for exporters to seek offsetting schemes when disposing of foreign exchange earnings. In this way there are threats to increase the pressure of demand in the foreign exchange market as well as to adopt appropriate and inevitable decisions regarding the sale of currency from reserves. Therefore, during martial law and the aggravation of the budget deficit, a clear but painful step was taken for the market with a 2.5-fold increase in the discount rate.

To prevent the economy from falling into vicious spiral of degradation, namely: rate increase – reduction of investments – technological lag – decrease in competitiveness – devaluation of the hryvnia – surge in inflation, unprecedented measures are being taken in the field of interaction between independent fiscal and monetary regulators, with the aim of a synergetic effect from this interaction. This applies primarily to interest rates on military bonds, stimulating import substitution and expanding domestic production with an increase in targeted lending to domestic businesses at acceptable interest rates. It should be borne in mind that the devaluation of the national currency, and the rise in world prices for food and raw materials have made a significant contribution to the current wave of inflation in Ukraine. The management of structural changes in the country will therefore be aimed at compliance with the principle of complementarity by the Government, central executive bodies and the National Bank.

Ukraine already has a program to support agricultural producers, as well as small and medium-sized businesses. It is also worth introducing special investment contracts or investment protection agreements between the state and enterprises as borrowers or other well-known instruments in world practice.

5. Conclusions

The signing of the EU – Ukraine Association Agreement in 2014 marked a new stage in the development of European–Ukrainian contractual relations, which provided for their transition to a qualitatively new level – from partnership and cooperation to political association and economic integration. The entry into force of this Agreement, especially of the part related to accession to the free trade zone, and its ratification, have set new challenges for the state, including those in the context of improving existing regulations in the field of taxation.

Even taking into account all the risks of the new economic reality, broad international support for tax reforms in Ukraine, as well as consistent activities by all branches of government, together with the public sector, have made it possible to unite all stakeholders around progressive change.

In modern conditions, the key priorities of Ukraine's tax policy are ensuring an anti-crisis tax policy under the conditions of martial law and post-war recovery; ensuring an anti-crisis tax policy in the context of the spread of the Covid-19 pandemic; harmonising the tax legislation of Ukraine with the norms of the European Union, taking Ukraine's acquisition of EU candidate status into account.

In connection with the lingering nature of hostilities on the territory of Ukraine, threats of destabilisation are increasing in the world. In the era of the pandemic, during forced quarantines to ensure social support in the USA and European countries monetary resources were issued, which led to an increase in inflation. Because of the war, prices for energy resources and food products are rising, Central Banks are forced to raise interest rates; there is an increase in the price of credit resources. The market problems of successful adaptation of the states to new crisis phenomena are accompanied by the risks of a possible food shortage, which will probably lead to another wave of migration from poor countries. In addition, in the autumn–winter period, an extra factor complicating the situation may be an increase in the incidence of the coronavirus.

The country has already shaped a confident course for the transformation of strategic directions for countering wartime geopolitical challenges, namely ensuring economic and social resilience to future upheavals in the post-war recovery process. In contrast to the approaches of Public Finance Management provided for in the Strategy for Reforming the State Finance Management System for 2022–2025 and the Plan of Actions for Its Implementation (see Cabinet of Ministers of Ukraine, 2021), monetary and credit regulation by various branches of government will take place covering the public sector as a whole. At the same time, Strategic Public Finance Governance (Marchenko, 2022) will make it possible to obtain a synergistic effect from the coordination of management actions, both during the period of martial law and during post-war recovery. *During systemic turmoil, the practical implementation of such a concept will be accompanied by the cohesion of society around countering the challenges and threats facing the country and its financial and economic system under the new reality, through the consistent introduction of relevant institutional changes within the framework of national characteristics.* In order to meet the needs of economic agents of all forms of ownership during the post-war recovery, within the framework of close cooperation with international partners, ways of countering the consequences of the growing war debt burden as well as the threats of destroying Ukraine's national economy have been roughcast (Ash, 2022). The financial policy of all branches of the Ukrainian Government as well as the National Bank is aimed at increasing the effectiveness of monetary transmission, minimising emission sources of financing the state budget deficit. The potential for stability and resilience of the economy will be strengthened on the basis of a balanced policy of growth of macroeconomic stability (Fukuyama, 2022) and stimulation of entrepreneurial activity (Mackinnon, 2022).

The maximum expansion of economic opportunities in Ukraine is provided on a legal basis through the complete modernisation of state institutions. This will increase tax payments, as well as registered employment.

A significant reserve to replenish the State Budget of Ukraine is a resource that can be obtained as the shadow sector of the economy shrinks.

A risk-oriented approach to combating money laundering has already been applied in Ukraine. At the legislative level, the Standards of the Financial Action Task Force on Money Laundering (see FATF, 2012–2022; Verkhovna Rada of Ukraine, 2019) are successfully implemented.

Further measures are planned to counteract the risks and threats of the operational activities of economic entities in the credit and financial sphere, including the creation of conditions for legalising (laundering) the proceeds from crime. These include conducting effective financial and economic activities, preventing the transfer of non-cash funds into shadow cash circulation, as well as the illegal withdrawal of cash and other valuable assets abroad.

Due to the implementation of the BEPS Action Plan by the world community, specific risks are of crucial importance, in particular in the field of information security. It is planned to implement the updated conceptual principles of tax expenditures (Heady & Mansour, 2019). Strengthening of the target nature of tax benefits will be used in the process of developing, approving and implementing the country's budget. The basis for the consistent institutionalisation of the international data exchange system will be the implementation of the requirements of the Common Reporting Standard (CRS) (OECD, 2022) in the legislation of Ukraine. Thus, against the background of reduced risks of tax evasion, trust in Ukrainian fiscal regulations will be strengthened. In Ukraine, the proper and voluntary fulfilment of tax obligations will be ensured by the complete elimination of informal rules in force in the shadow economy. According to the guidelines of reputable international organisations, risk assessment and management become one of the key links in the activities of tax administrations (OECD, 2017). At the same time, the political guidelines of society in the context of combating corruption and organised crime will also be considered.

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