"State budget expenditures under martial law: Case of Ukraine"

AUTHORS	Igor Chugunov (iD) R Iryna Liubchak (iD) Andriy Vatulov (iD) Mykhailo Titarchuk (iD) Valeriy Chugunov (iD) Svitlana Zaychuk (iD)

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BUSINESS PERSPECTIVES

Igor Chugunov, Doctor of Economics,
Professor, Department of Finance,
Kyiv National University of Trade and
Economics, Ukraine.

Iryna Liubchak, Ph.D. in Economics,
Department of Finance, Kyiv National
University of Trade and Economics,
Ukraine. (Corresponding author)

Andriy Vatulov, Ph.D. in Economics,
Doctoral Student of the Department
of Finance, Kyiv National University of
Trade and Economics, Ukraine.

Mykhailo Titarchuk, Ph.D. in
Economics, Doctoral Student of the
Department of Finance, Kyiv National
University of Trade and Economics,
Ukraine.

Valeriy Chugunov, Ph.D. in Economics,
Junior Researcher, Department of
Finance, Kyiv National University of
Trade and Economics, Ukraine.

Svitlana Zaychuk, Ph.D. in Economics,
Associate Professor of the Department
of Finance, Kyiv National University of
Trade and Economics, Ukraine.

Igor Chugunov (Ukraine), Iryna Liubchak (Ukraine), Andriy Vatulov (Ukraine), Mykhailo Titarchuk (Ukraine), Valeriy Chugunov (Ukraine), Svitlana Zaychuk (Ukraine)

STATE BUDGET EXPENDITURES UNDER MARTIAL LAW: CASE OF UKRAINE

Abstract

The direction of the state budget to defense and the military-industrial complex under martial law imposes more stringent requirements on the system of formation and execution of state budget expenditures. The study aims to determine the efficiency of the distribution of state budget expenditures and their impact on the country's macroeconomic stability under martial law. To evaluate the implications of martial law on the expenditure component of Ukraine's state budget, a correlation regression analysis was employed to investigate the relationship between the budget deficit and the levels of total state budget expenditures and defense spending. The empirical findings indicate that fluctuations in state budget expenditures are a significant determinant of the budget deficit. In particular, a 1 billion UAH increase in total expenditures is associated with an average rise in the budget deficit of 1.19%. This result underscores the importance of a sound fiscal policy that ensures the efficient and rational allocation of budgetary resources, particularly under conditions of heightened military and security needs. Based on analytical results, medium-term budgetary projections for the period of 2025–2027 were developed. The forecast estimates that state budget expenditures will constitute approximately 45.74% of GDP, while the budget deficit is projected to reach 18.84% of GDP. The findings emphasize the need for effective expenditure management and strategic prioritization of fiscal resources under martial law. The paper offers directions for strengthening the macroeconomic stability and financial resilience of Ukraine under martial law through the rational distribution of budget expenditures.

Keywords	budget, expenditures, deficit, regulation, financing, stability
JEL Classification	H61, H62, H72

INTRODUCTION

Budget expenditures are an effective and efficient instrument for regulating macroeconomic stability and economic activity in the country. The expenditure part of the budget determines the state's performance in fulfilling the functions assigned to it, as well as the priority areas for achieving the set national goals in the context of socio-economic development in the medium and long term. The implementation of budget policy is reflected in the structure of budget expenditures. When forming an effective and efficient budget policy, expenditures significantly affect macroeconomic stability and the development of priority sectors in the context of socio-economic development. The socio-economic development of a country depends on budgetary policy in terms of government expenditures, especially in times of economic transformation when financial resources are limited.

Each component of the state budget expenditure has a corresponding level of influence on the socio-economic development of the country. In conditions of limited budgetary resources, the government can achieve macroeconomic stability by reallocating financial resources toward the primary financing of key priorities in budget expenditures. The effectiveness of budget expenditures contributes to a balanced

budget, compliance with macroeconomic indicators, an increase in the level and quality of life of citizens, and stabilizes the country's financial system. The full-scale invasion and the declaration of martial law significantly affected the formation of the revenue part of the Ukrainian budget in terms of the possibility of forming its financial resources and the need to attract international financial assistance. At the same time, state budget expenditures are adaptive and are growing in terms of financing defense and state security. The result of the corresponding budget policy is an increase in the deficit. Under such conditions, it is necessary to strengthen financial and budgetary discipline by ensuring control over the formation and implementation of the expenditure part of the budget and increasing the predictability and effectiveness of state expenditures.

1. LITERATURE REVIEW

In a state of martial law, the rational distribution of expenditures is a priority task to maintain the stability of the financial and budgetary system. A retrospective analysis of the impact of public expenditures in crisis conditions includes the views of various economic schools. The relevant issue is also widely discussed in scientific literature and covered in numerous scientific works.

One of the postulates of Keynesian economics (Keynes, 1935) is that an increase in public spending can stimulate economic growth, especially during periods of economic recession. Thus, higher public budget expenditures contribute to GDP growth. Classical economic theory determines (Smith, 1904) a negative relationship between expenditures and economic growth. The justification for this point of view is based on the fact that an increase in public spending, especially deficit spending, leads to an increase in interest rates and inflation, which, in turn, hinders private investment and slows down economic growth.

An increase in government spending creates distortions in the formation of effective economic levers (such as high interest rates and tax rates), which do not contribute to further growth in the country's economy (Barro, 1991). The consequences of such an irrational distribution of expenditures reduce the rate of economic growth (Apeti et al., 2024). Accordingly, the government needs to formulate measures aimed at better mobilization of budgetary resources in combination with the inevitable rationalization of public spending (Ouertani & Hamdani, 2025). National economies under martial law undergo changes and adaptations in public administration, including the distribution of military spending (Avellan et al., 2020). Therefore, defense spending is the main component of budget expenditures (Dunne & Tian, 2015). Given the importance of the defense function and the substantial financial resources allocated to it, it is necessary to enhance the quality of planning and implementation of budget expenditures. The formation and implementation of the state budget should contribute to achieving national security and defense goals (Candreva, 2024).

The allocation of national defense budgets is a key aspect of government spending, with profound implications for national security, economic stability, and resource allocation (Bachtiar et al., 2025). The priority and focus of budget financial flows for ensuring the security and defense of the state are changing (Romenska et al., 2024). Excessive defense spending can reduce the availability of resources for critical public investments that contribute to long-term economic progress (Brooks, 2025). In this context, it is important to consider sustainable growth goals when reviewing the military budget (Gbadebo et al., 2025).

The budget has various functions (Arnold & Artz, 2019), providing financial resources for the socio-economic development of the country. Significant military spending on defense, reconstruction of destroyed infrastructure, and support for civilian spending have led to a rapid increase in the state budget deficit, which is covered mainly by external borrowing (Zhuravka et al., 2024; Malyniak et al., 2022). However, high levels of public debt can become very costly in the future (Haan & Gootjes, 2022) and have a negative impact on the socio-economic development of the country (Kutasi & Marton, 2020). Accordingly, budget efficiency management is crucial for strengthening revenue and expenditure management (Jiang & Chi, 2024). For countries with excessive deficits, this is a determining factor for increasing the debt ratio (Cronin & McQuinn, 2023).

In the context of a full-scale war, a new look at the existing system of public spending was necessary to ensure a clear distinction between general problems of inefficiency and those caused by military actions and thus to understand the prospects for solving each of the problematic aspects in the post-war period (Levytska et al., 2023). The impact of public spending on increasing the budget deficit occurs both in the short and long term (Vo et al., 2023).

Considering the effective allocation of budget expenditures, the budget policy will aim to reduce the level of the state budget deficit in 2025–2027, which was increased to meet the needs of the state in financial resources after the start of full-scale war (Ministry of Finance of Ukraine, 2025). Accordingly, the public finance management system should optimize financial and budgetary instruments to prevent the growth of public debt and budget deficit in gross domestic product, which determines the importance of substantiating further directions for the development of the public finance management system (Chornovol et al., 2020).

Additionally, the possibility of including defense spending in local budgets during martial law is considered a promising direction for addressing defense needs (Gasanov et al., 2024). It is important to ensure proper resource management and their effective distribution to accelerate economic growth in countries with a unidirectional causal relationship from GDP to budget expenditures (Dudzevičiūtė et al., 2018; Minini & Selem-Amachree, 2021). After all, there is a unidirectional causal relationship between the growth rate of military spending and the rate of economic growth (Farzanegan, 2014). Empirical results indicate a positive and statistically significant relationship between spending, debt, and GDP indicators (Spilioti & Vamvoukas, 2015). Endogeneity is a crucial issue, with instrumental variable estimates yielding a larger, significantly negative impact of military spending on growth than least squares (d'Agostino et al., 2019). As a result, it is worth emphasizing that government spending determines the rate of economic growth (Wu et al., 2010).

Rational management of public finances and sound budgetary policy under martial law ensure the country's financial and budgetary security (Chugunov et al., 2023; Lunina, 2022). An increase in public spending is likely to lead to a decrease in economic growth (Dzhumashev, 2014). Positive shocks in defense spending can cause a positive shock to GDP per capita, assuming that the increase in defense spending shocks will be productive and growth-enhancing (Gbadebo et al., 2025). Defense budget spending negatively affects economic development, and accordingly, the country's government needs to allocate the military budget effectively to stimulate economic growth and improve social security (Muhammad, 2020; Okwoche & Nikolaidou, 2024). Empirical results suggest that high deficits, inflation, and military spending were the main reasons for the increase in debt (Dimitraki & Kartsaklas, 2018). In a state of martial law, it is crucial to establish an efficient mechanism for distributing government spending (Dunne & Smith, 2010). It is also important to form an effective ratio between defense and social security spending (Eregha et al., 2022).

The literature review identified the multifaceted approaches to studying budget expenditures under martial law. It is worth noting that to analyze the adaptation and transformation of budget policy under martial law, there are questions that require further research, particularly in terms of the efficiency and priority of budget expenditure distribution and their impact on the country's macroeconomic stability, including the budget deficit indicator.

Thus, the study aims to determine the efficiency of budget expenditure distribution under martial law and its impact on the country's macroeconomic stability.

2. METHODOLOGY

This study primarily proceeded from the conceptual approaches to assessing the efficiency of budget expenditure distribution under martial law. Therefore, economic and statistical methods were used to assess the efficiency of budget expenditure distribution under martial law.

The main method used in this study is correlation regression analysis, a classical method of proba-

bilistic modeling that forms the relationships between indicators when the relationship between them is not strictly functional or distorted by the influence of extraneous (random) factors. The model determines the synergistic relationship between the outcome variable *y* and some influencing factors *x*1, *x*2…, *xm*.

The model is expressed as follows:

$$Y = a0 + a1x1 + a2x2 + ... + amxm. \qquad (1)$$

The purpose of this method is to study the interaction of budget expenditures, budget expenditures on defense, and the budget deficit indicator. The adequacy of the constructed model was checked, which included several key aspects:

1) statistical significance of the model: employing the Fisher test (*F*-test) for the entire model; checking the regression coefficients for significance (*t*-tests);

2) coefficient of determination (R^2) by reflecting the proportion of the variation of the dependent variable that is explained by the regression model;

3) multicollinearity: assessing the model through the *p*-value, which shows whether the variables are not too strongly correlated with each other. The primary data for the calculations are defined in Table 1.

Table 1. Indicators of budget expenditures and budget deficit in 2019–2024, billion UAH

Year	State budget deficit, billion UAH	State budget expenditures, billion UAH	Defense expenditures, billion UAH
	Y	X_1	X_2
2019	78.0	1,072.9	168.2
2020	217.1	1,288.0	120.4
2021	197.9	1,490.2	127.5
2022	914.7	2,705.4	1,142.9
2023	1,333.1	4,014.4	2,097.6
2024	1,358.5	4,486.7	2,304.4

3. RESULTS

When forming an effective and efficient budget policy, budget expenditures significantly affect the dynamics of socio-economic development. The experience of countries with developed economies proves that there is a certain interaction between the current economic situation in the country and budget policy in terms of public expenditures. In particular, economic development and the growth rate of the country's gross domestic product affect the formation of the volume and structure of public budget expenditures; on the other hand, budget expenditures affect the socio-economic development of the country and the dynamics of macro-economic indicators.

The effectiveness and efficiency of budget expenditures reflect the impact on the pace of economic

	2019	2020	2021	2022	2023	2024
growth rate of expenditures in % compared to the previous year	8.8	20.1	15.7	81.5	48.3	11.8
GDP growth rate in % compared to the previous year	1.4	-0.1	6.3	-30.6	4.7	18.2

Figure 1. Growth dynamics of budget expenditures and GDP, % compared to the previous year

development. However, this relationship is influenced by several factors: the current economic and institutional environment, the quality of public management of financial and budgetary relations, martial law, and foreign economic relations. The degree of their influence is determined not only by the volume of GDP redistributed through the budget but also by their structure, that is, the proportions of the distribution of budget resources between different areas of social development.

According to analytical data, the GDP growth rate in % compared to the previous year shows a significant decrease in 2022. The full-scale invasion resulted in a reduction in consumer demand, investment activity, exports, and logistics and a critical dependence on external financial assistance. In 2023, the Ukrainian economy gradually adapted to the conditions of martial law, resulting in a 4.7% increase in GDP compared to the previous year. The growth rate of budget expenditures in 2022 was 81.5% compared to the analyzed 2021. Such a significant increase in budget expenditures is explained by the need to finance priority bud-

get expenditures, such as defense, public order and security, social protection, and social security. Due to the increase in expenditures (in 2022 compared to 2021 by 81.5%) and the simultaneous decrease in tax revenues (in 2022 compared to 2021 by 14.21%), the risks to the financial stability of the state budget have increased, and the deficit has significantly increased (18.96% of GDP). In 2024, the growth rate of budget expenditures compared to 2023 was 11.8%; in turn, the growth rate of GDP compared to the previous year was 18.2% (Legislation of Ukraine, 2023, 2024, 2025).

The state budget of Ukraine under martial law is undergoing significant transformation; the structure and dynamics of budget expenditures by functional classification are shown in Table 2.

Under martial law, state budget expenditures finance priority needs for socio-economic development. In particular, the first priority is the defense of the country, ensuring public order and security. Financing of social protection and social security in 2023 amounted to 7.9% of GDP. For com-

Table 2. Expenditures of the State Budget of Ukraine by functional classification, 2019–2024, billion UAH

Source: Ministry of Finance of Ukraine (2025).

Indicator		2019	2020	2021	2022	2023	2024	Absolute deviation (2024/2019)
State functions	Sum	168.2	163.8	206.7	201.9	296.1	374.3	206.1
	Specific gravity, %	15.7	12.7	13.9	7.5	7.4	8.3	−7.4
Defense	Sum	106.6	120.4	127.5	1143.2	2097.6	2304.5	2197.9
	Specific gravity, %	9.9	9.3	8.5	42.3	52.3	51.4	41.5
Public order, security, judiciary	Sum	140.1	157.7	174.4	443.3	574.4	692.6	552.5
	Specific gravity, %	13.1	12.2	11.7	16.4	14.3	15.4	2.3
Economic activity	Sum	72.4	169.0	181.0	95.4	134.3	189.6	117.2
	Specific gravity, %	6.7	13.1	12.1	3.5	3.3	4.2	−2.5
Environmental protection	Sum	6.3	6.6	8.2	4.7	5.2	10.6	4.3
	Specific gravity, %	0.6	0.5	0.5	0.2	0.1	0.2	−0.4
Housing and communal services	Sum	0.1	0.09	0.16	0.5	8.3	8.3	8.2
	Specific gravity, %	0.009	0.007	0.01	0.01	0.2	0.2	0.191
Healthcare	Sum	38.5	124.9	170.5	184.3	179.3	212.9	174.4
	Specific gravity, %	3.6	9.7	11.4	6.8	4.5	4.7	1.1
Spiritual and physical development	Sum	9.9	9.8	16.0	11.1	11.8	17.4	7.5
	Specific gravity, %	0.9	0.8	1.1	0.4	0.3	0.4	−0.5
Education	Sum	51.6	52.9	63.8	58.5	60.4	64.7	13.1
	Specific gravity, %	4.8	4.1	4.3	2.1	1.5	1.4	−3.4
Social protection and provision	Sum	218.6	322.7	339.3	426.0	469.3	464.7	246.1
	Specific gravity, %	20.4	25.1	22.8	15.7	11.7	10.3	−10.1
Interbudgetary transfers	Sum	260.3	160.2	202.7	136.8	177.4	187.9	−72.4
	Specific gravity, %	24.3	12.4	13.6	5.1	4.4	4.2	−20.1
Total	Sum	1072.6	1288.1	1490.3	2705.7	4014.1	4486.7	3414.1
	Specific gravity, %	100	100	100	100	100	100	−

parison, this indicator in 2021 was 6.7% of GDP. Healthcare spending decreased from 3.7% of GDP in 2021 to 3.3% in 2023. There was a reduction in spending on economic activity, from 5.4% of GDP in 2021 to 3.8% in 2023, and on education, from 5.7% of GDP in 2021 to 4.7% in 2023. Significant state financial resources are allocated to servicing the internal state debt, which totaled 205.5 billion UAH in 2023. In percentage terms, domestic debt service expenditures increased from 1.9% of GDP in 2021 to 3.2–3.5% in 2022–2023. The reason for this situation is the high level of the discount rate (Legislation of Ukraine, 2023, 2024, 2025).

Stimulating economic activity is one of the priorities of financing the state budget to ensure the formation of the revenue part of the budgets of all levels. It is worth noting that the intensification of work under the national program "Affordable Credit 5–7–9%" has made a significant positive contribution to stimulating economic development. The program aims to implement support mechanisms through grants for the creation or development of a business, particularly for the establishment or expansion of existing enterprises.

The results of the analysis of expenditures of the State Budget of Ukraine prove the importance of optimizing the expenditure part of the budget and changing its structure. Accordingly, the strategic objective of financial and budgetary policy is to ensure an adequate level of financing for the security and defense sector. The limited state financial resources require the development of an effective budget policy in terms of implementing an effective mechanism for mobilizing the budget's revenues and harmonizing budget and tax planning instruments, which will help ensure an optimal balance between own and borrowed resources (IBP, 2023).

In conditions of limited financial resources, it is important to implement prospective budget planning and forecasting. Prospective budget planning, based on the cyclical nature of economic development, budget balance, and financial sustainability, contributes to the transformation of the financial and budgetary system in the direction of a systemic development model. When implementing budget planning, it is important to coordinate the objectives of budget policy and the directions of the country's socio-economic development in the medium and long term. Adaptive changes in the institutional environment of the budget confirm the financial indicators presented in the draft Law of Ukraine "On the State Budget of Ukraine for 2025" (Legislation of Ukraine, 2025) and the planned indicators for 2025–2027, which were calculated in this study.

The dependence of the budget deficit on the size of state budget expenditures and defense expenditures is analyzed. The input data for the dependence analysis and the statistical characteristics of the model are presented in Table 1.

The developed model reveals a close relationship between the size of the budget deficit and budget expenditures, which has a significant impact on the country's financial and economic stability. The multiple linear regression equation for modeling the relationship between the budget deficit and budget expenditures looks as follows:

$$Y = -99.3471 + 0.1955 X1 + 0.2937 X2, \quad (2)$$

where Y – State budget deficit (billion UAH.); $X1$ – State budget expenditures (billion UAH); $X2$ – Defense expenditures (billion UAH).

Table 3. Regression statistics indicators

Regression statistics	
Multiple R	0.9882
R-squared	0.9765
Normalized R-squared	0.9608
Standard error	117.0728
Observations	6

The multiple $R = 0.9882$ determines a high level of correlation between variables and the state budget deficit. The R-squared $= 0.9765$ is a sufficiently high indicator and indicates 97.65% of the variation in the budget deficit. The normalized $R = 0.9608$ characterizes a high dependence between the model variables and the constant.

The presented analysis of variance (ANOVA) indicates the following. The significance of $F = 0.0036$, which is insignificant and indicates the statistical significance of the developed model as a whole. In turn, the F-statistic $= 62.3778$, which indicates that the independent variables ($X1$ – budget expenditures and $X2$ – defense expenditures) have a

Table 4. Analysis of variance

Indicators	Df	SS	MS	F	Significance of F
Regression	2	1,709,906.559	854,953.2794	62.3778	0.0036
Residual	3	41,118.1296	13,706.04321	–	–
Total	5	1,751,024.68	–	–	–

Table 5. Analysis of the independent variables of the model

Variable	Coefficient	Standard error	t-statistic	P-value
Constant	−99.3471	357.0199	−0.2782	0.7988
$X1$ (budget expenditure)	0.1955	0.3242	0.6030	0.5890
$X2$ (defense expenditure)	0.2937	0.4696	0.6254	0.5760

significant impact on the dependent variable (Y – budget deficit).

The coefficient for $X1$ (budget expenditures) is 1.19. This means that an increase in budget expenditures by 1 billion UAH increases the budget deficit by an average of 1.19%. The coefficient for $X2$ (defense expenditures) is 1.46 and is statistically insignificant (p-value = 0.58 > 0.05). This indicator shows that although an increase in budget expenditures for defense increases the budget deficit, this effect is not statistically confirmed.

Thus, the developed model of the relationship indicates that the dynamics of state budget expenditures determine the level of the budget deficit. This means that in order to reduce the level of the budget deficit, an effective policy is important in terms of the rational distribution of budget expenditures. Defense spending has an impact on the level of the budget deficit, but the statistical significance of this indicator has not been confirmed. This trend suggests that an increase in defense spending does

not necessarily lead to a linear increase in the budget deficit.

Prospective budget planning serves as the foundation for implementing a balanced budget policy, aiming to achieve financial sustainability and socio-economic development. The planned indicators presented in Table 6 were calculated by the main macroeconomic trends and indicators, taking into account the gradual achievement of budget balance and increasing the pace of economic development. The forecast indicator of the share of revenues of the State Budget of Ukraine in gross domestic product for the period 2025–2027 is 27.25% (24.44% for the general fund and 2.81% for the special fund). The forecast of the share of expenditures of the State Budget of Ukraine in GDP is 45.74% (42.22% for the general fund and 3.52% for the special fund). The share of the deficit in GDP is forecast to be 18.84% (17.79% for the general fund and 1.05% for the special fund). The forecast for the share of lending in GDP is set at 0.35% (0.01% for the general fund and 0.34% for the special fund) (Table 6).

Table 6. Planned indicators of the State Budget of Ukraine for 2025–2027, billion UAH

Indicators	2025 Year	% to GDP	2026 Year	% to GDP	2027 Year	% to GDP
Budget revenues	2,336.28	27.60	2,617.56	27.24	2,936.03	26.92
General fund	2,095.22	24.75	2,347.54	24.43	2,632.82	24.14
Special fund	241.06	2.85	270.02	2.81	303.20	2.78
Budget deficit	1,640.63	19.38	1,812.31	18.86	1,993.71	18.28
General fund	1,549.50	18.30	1,711.41	17.81	1,882.46	17.26
Special fund	91.13	1.08	100.90	1.05	111.25	1.02
Lending	38.71	0.46	33.63	0.35	26.18	0.24
General fund	1.15	0.01	0.96	0.01	1.09	0.01
Special fund	37.56	0.45	32.67	0.34	25.09	0.23
Budget expenditures	3,938.20	46.52	4,396.23	45.75	4,903.56	44.96
General fund	3,643.57	43.04	4,057.97	42.23	4,514.20	41.39
Special fund	294.63	3.48	338.26	3.52	389.36	3.57

Budget planning should be based on a qualitatively formed institutional environment. Accordingly, the institutional architecture of budget planning should take into account the direction of improving the qualitative characteristics of budget institutions. Budget planning should take into account consistent and adaptive improvements in the institutional environment and the implementation of institutional changes in accordance with the trends of the socio-economic environment. Gradual improvement of the institutional environment will contribute to achieving the sustainability of the financial and budgetary system, as well as economic growth and social development. Budget planning is a crucial component of the budget strategy. The institutional architecture of the budget strategy is an instrument of state regulation of financial and budgetary relations and determines the dynamics of socio-economic changes. The mechanism for forming and implementing the budget strategy should be based on the institutional environment, encompassing economic, social, political, and legal provisions. An effective budget strategy, when implemented, requires the use of adaptive architecture of budget regulation, which will contribute to achieving financial sustainability and balance.

The change in the priority of budget expenditures aims to ensure state sovereignty, increasing the defense capability and security of the state and overcoming the negative consequences caused by large-scale war. Therefore, in conditions of martial law, the issue of rational distribution of budget expenditures at all levels is exacerbated. In conditions of limited financial resources, it is necessary to determine the effective distribution of budget expenditures by comprehensively taking into account political and socio-economic conditions. One of the primary tasks of budget policy at the present stage is to strengthen the function of regulating budget expenditures and optimizing their allocation in terms of the priority distribution of financial resources. It is essential to allocate budget funds among sectors, budget programs, and budget fund managers in both the annual and medium-term perspectives, utilizing an adaptive budget architecture and effective regulation of inter-budgetary relations, while considering the unique challenges and characteristics of wartime. It is advisable to further develop the system for forming budget expenditures in terms of strengthening their impact on ensuring macroeconomic stability, taking into account the cyclical nature of economic processes and socio-economic changes caused by the challenges of martial law.

It is necessary to further develop the system of budget expenditure formation in order to strengthen the use of its regulatory potential and increase the rationality of distributing budget resources between areas of social development, taking into account their priority and the cyclical nature of economic and socio-demographic processes. All this requires the development of institutional principles for the formation of budget expenditure in the system of state strategic planning and forecasting, a structural and functional model of the budget regulation system in the field of expenditure. The formation of the volume and structure of budget expenditure should be based on the analysis of the dynamics of socio-demographic and economic processes in the country in order to determine the phase of their cyclical development, trends in the dynamics of actual indicators of the expenditure part of the budget in previous periods, and the identification of the features of the mutual influence of the volume and structure of budget expenditure and indicators of the country's socio-economic development.

In conditions of limited budget resources, financial support for socio-economic development is possible by streamlining the volume and structure of budget expenditures, which requires the redistribution of budget funds between certain areas of expenditure by analyzing the specified structure and effectiveness of spending budget funds. With limited state budget resources, current budget expenditures, primarily of a social nature, remain a priority. However, the possibilities of implementing budget expenditures are largely determined by revenues, and in order to receive additional revenues in the future, it is necessary to effectively invest budget funds at present. The formation of budget expenditures should be carried out taking into account the need to ensure a sufficient level of institutional transformations of the economy, the use of effective budget mechanisms, the integration of medium-term budget planning into the budget process at the level of the main spending units of budget funds, and the improvement of the system for monitoring the effectiveness of budget programs.

To increase the efficiency of budget expenditure formation under martial law, it is important to effectively use the basic provisions of budget architecture and effectively implement and plan budget programs, taking into account the priority areas of national economic development. Moreover, it is crucial to strengthen the responsibility of the main administrators of budget funds for fulfilling the main tasks of the development of the relevant sector, form an effective institutional environment aimed at implementing a balanced budget policy, promote the resilience of public finances, maintain the country's financial and economic balance at a sufficient level, and maintain transparency in the budget process.

4. DISCUSSION

Martial law has led to a gradual adaptation of budget policy through transformational changes in social, economic, and public relations. The priority of budget expenditures is to increase financing of the defense sector. This situation leads to different views on the impact of budget policy on macroeconomic stability and socio-economic development. Accordingly, the issue of effective and rational distribution of state budget expenditures remains a debatable issue. In particular, Lunina (2022) claims that the effect of martial law leads to problems in financing budget expenditures due to the rapid growth of security and defense spending. Radionov (2023) notes that under martial law, the issue of rational distribution of expenditures at all levels of the budget is particularly relevant, with a special emphasis on the effectiveness of their use in strengthening defense capabilities, restoring critical infrastructure destroyed, and financing other vital activities for Ukraine and its citizens. The study fully confirms the findings of Marzian and Trebesch (2025): the buildup of military resources is rarely financed by budget cuts; the greater the military buildup, the more governments rely on deficit and debt financing.

The conducted correlation-regression analysis confirmed the empirical analysis by Farzanegan (2014) regarding the existence of a unidirectional causal relationship between the growth rate of military spending and the rate of economic growth. The results also confirmed the conclusions of Chornovol et al. (2020) that the public finance management system should optimize financial and budgetary instruments to prevent the growth of public debt and budget deficit in GDP. Moreover, they align to Spilioti and Vamvoukas (2015), confirming a positive and statistically significant relationship between spending and debt.

The results of the study of the structure of budget expenditures (Table 2) confirm the evidence of Romenska et al. (2024) that under martial law, the priority and direction of budget financial flows to ensure the security and defense of the state change. Analytical calculations confirmed the statement of Vo et al. (2023) regarding the impact of government spending on increasing the budget deficit in both the short and long term.

Therefore, the level of efficiency and priority of the formation and effectiveness of budget expenditures determines the macroeconomic balance in the country and socio-economic development in the future budget period. The conducted study identifies the directions of Ukraine's budget policy under martial law. The adaptive and dynamic changes in the budget system that occurred under the influence of martial law are analyzed. A further promising aspect of the study is the recognition of the effectiveness of budget expenditures on socio-economic development.

CONCLUSION

The study aims to determine the efficiency of budget expenditure distribution under martial law and its impact on the country's macroeconomic stability. The results clarify the level of efficiency in distributing state budget expenditures and their impact on the country's macroeconomic stability under martial law. The analysis of the main budget indicators revealed that budget expenditures for national security and defense are one of the priority areas of budget financing. Correlation-regression analysis revealed a significant influence of budget expenditures on budget deficit indicators (an increase in budget expenditures by 1 billion UAH increases the budget deficit by an average of 1.19%). The budget planning

and forecasting showed that the projected share of the State Budget of Ukraine's revenues in the gross domestic product for the period 2025–2027 is 27.25%. Next, the forecast share of the State Budget of Ukraine's expenditures in GDP is 45.74%, the share of the deficit in GDP is forecast at 18.84%, and the forecast share of lending in GDP is set at 0.35%. This trend indicates a gradual reduction in the share of budget expenditures and budget deficit in GDP.

The presented results identify priority areas for improving the system of forming and executing state budget expenditures. They include the formation of state budget expenditures by proper financial and economic justification and preventing the growth of the state deficit without determining realistic sources of its financing since this results in underfinancing of individual budget programs. Next, strengthening cooperation with international partners in attracting additional preferential lending and developing the domestic lending and stock markets as available sources of financing for budget expenditures necessary for the reconstruction of the national economy is crucial.

The shift in budget policy direction, from managing budget resources to managing budget results, requires the development and implementation of a substantiated system for monitoring the effectiveness of budget programs and the activities of budget managers. It involves improving the distribution of budget funds between budget programs based on the overall level of effectiveness of their implementation and priority. The priority is to ensure the streamlining of the structure of the expenditure part of the state budget to increase the effectiveness and targeted use of financial resources, which in turn will contribute to strengthening the stabilization function of fiscal and budgetary policy.

The results of the study confirm the importance of further research into the areas of achieving fiscal and budgetary stability and balance under martial law and in the post-war period. The practical significance of the results suggests the potential for their application in the development and implementation of the country's budgetary policy.

AUTHOR CONTRIBUTIONS

Conceptualization: Igor Chugunov, Iryna Liubchak.
Data curation: Andriy Vatulov, Mykhailo Titarchuk, Valeriy Chugunov, Svitlana Zaychuk.
Formal analysis: Iryna Liubchak, Andriy Vatulov, Mykhailo Titarchuk, Valeriy Chugunov, Svitlana Zaychuk.
Investigation: Igor Chugunov, Iryna Liubchak, Andriy Vatulov, Mykhailo Titarchuk, Valeriy Chugunov, Svitlana Zaychuk.
Methodology: Igor Chugunov, Iryna Liubchak, Andriy Vatulov, Mykhailo Titarchuk, Valeriy Chugunov, Svitlana Zaychuk.
Project administration: Igor Chugunov, Iryna Liubchak.
Resources: Igor Chugunov, Iryna Liubchak, Andriy Vatulov, Mykhailo Titarchuk, Valeriy Chugunov, Svitlana Zaychuk.
Software: Iryna Liubchak.
Supervision: Igor Chugunov, Iryna Liubchak.
Validation: Igor Chugunov, Iryna Liubchak.
Visualization: Andriy Vatulov, Mykhailo Titarchuk.
Writing – original draft: Igor Chugunov, Iryna Liubchak, Mykhailo Titarchuk, Valeriy Chugunov, Svitlana Zaychuk.
Writing – review & editing: Igor Chugunov.

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