

PUBLIC EXPENDITURES OF THE STATE BUDGET OF UKRAINE IN THE CONTEXT OF FISCAL CONSOLIDATION: EFFICIENCY AND CONSTRAINTS

HOLYNSKYY Yuriy

PhD in Economics, Associate Professor,

Associate Professor of the department of Financial Management

Ivan Franko National University of Lviv;

Doctoral student, M. Dolishniy Institute of Regional Research of National Academy of Sciences of Ukraine

ORCID ID: <https://orcid.org/0000-0003-2724-5027>

Abstract. *The article examines the role of public expenditures of the state budget of Ukraine in ensuring fiscal consolidation under conditions of martial law and post-war recovery. It analyses the transformation of the functional and economic structure of expenditures in 2020–2025, particularly the sharp increase in defence spending and the crowding out of social and development-oriented expenditures. The paper summarises international approaches to assessing public expenditure efficiency, including the distinction between technical and allocative efficiency, as well as the role of spending reviews as a key fiscal consolidation tool. It identifies key institutional constraints of budget policy in Ukraine, such as high expenditure rigidity, limited scope for cuts, and insufficient integration of performance evaluation into the budget process. The study substantiates that, in the Ukrainian context, fiscal consolidation should rely primarily on improving expenditure efficiency and prioritisation rather than mechanical spending cuts. Policy directions are proposed to optimise expenditure structure, strengthen medium-term budgeting, and institutionalise spending reviews.*

Keywords: public expenditures, fiscal consolidation, expenditure efficiency, defence spending, spending reviews, public finance, budget policy.

This article provides a comprehensive analysis of public expenditures of the state budget of Ukraine as a key component of fiscal consolidation under conditions of war and post-war recovery. Public expenditures are examined not only as a mechanism for financing core state functions, but also as a central determinant of budget deficits, public debt dynamics, and overall fiscal sustainability. The study emphasises that, in modern public finance theory, fiscal consolidation should not be reduced to simple expenditure cuts, but rather understood as a structural transformation of budget composition focused on efficiency, prioritisation, and institutional strengthening.

The theoretical framework of the article is based on contemporary approaches developed by the International Monetary Fund, the OECD, and the World Bank. Within this framework, expenditure efficiency is conceptualised through the distinction between technical efficiency, which reflects the relationship between inputs and outputs, and allocative efficiency, which captures the alignment of spending with strategic policy priorities. Fiscal consolidation is

therefore interpreted as a process that combines deficit reduction with a reallocation of resources towards more productive and growth-enhancing expenditures.

A significant part of the article is devoted to analysing the transformation of the expenditure structure in Ukraine during 2020–2025. The findings demonstrate a sharp increase in defence and security spending following the full-scale invasion, accompanied by a relative decline in the share of expenditures on social protection, education, and economic development. The study shows that such structural shifts, while necessary from a security perspective, generate long-term risks for human capital development, social cohesion, and economic growth potential. At the same time, the high share of rigid expenditures – including defence, social transfers, wages, and debt servicing – substantially limits the scope for traditional expenditure-based consolidation measures.

The article further examines institutional constraints affecting expenditure efficiency in Ukraine. Drawing on international assessments such as PEFA and Public Finance Reviews, it highlights persistent weaknesses in public financial management, including limited use of spending reviews, insufficient integration of performance evaluation into budget decision-making, and challenges in public investment management. The wartime environment is shown to further complicate fiscal governance by increasing discretionary spending and reducing the effectiveness of control mechanisms, although it has also accelerated the adoption of digital tools and monitoring systems.

Special attention is paid to sectoral dimensions of expenditure efficiency, including defence, social protection, public sector wages, and debt servicing. The analysis demonstrates that fiscal consolidation in Ukraine should focus on improving the efficiency and targeting of expenditures within these sectors, rather than attempting across-the-board cuts. International experience suggests that spending reviews, medium-term budgeting, and institutional reforms are essential tools for achieving sustainable consolidation.

The article concludes that strengthening fiscal sustainability in Ukraine requires a shift from ad hoc expenditure adjustments to a systematic, evidence-based approach to public spending. Key policy priorities include institutionalising spending reviews, optimising the public sector wage bill and service delivery networks, improving the targeting of social assistance, enhancing the efficiency of defence expenditures, and strengthening medium-term fiscal planning. Such an approach would allow Ukraine to balance the urgent demands of wartime financing with the long-term objectives of economic recovery and fiscal stability.

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