

MACROECONOMIC EFFECTS OF FISCAL CONSOLIDATION IN UKRAINE UNDER UNCERTAINTY

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Abstract. *The article assesses the macroeconomic effects of fiscal consolidation in Ukraine under conditions of high uncertainty driven by the duration of the war and the volatility of external financing. Drawing on the indicators of the Budget Declaration for 2027–2029, state budget execution data and public debt dynamics, the study analyses the scale, profile and composition of the planned fiscal adjustment: a reduction of state budget expenditures from 61.3% of GDP in 2025 to 30.4% in 2029, accompanied by a decline in revenues from 42.9% to 24.9% of GDP. It is substantiated that the bulk of this adjustment is not a discretionary tightening of the fiscal impulse but a passive response to the phasing-out of grant support, while the net deficit reduction amounts to 12.8 percentage points of GDP. The paper identifies a structural rotation of expenditures from defence towards debt service: the share of general public functions rises from 8.0% to 25.0% of expenditures, whereas the share of the security and defence sector falls from 71.1% to 37.5%. Fiscal uncertainty is quantified by comparing three consecutive budget declarations, and the «involuntary» consolidation of the first half of 2026, caused by the underperformance of the borrowing plan, is analysed. Policy directions are proposed that focus on reducing uncertainty itself as an independent macroeconomic factor.*

Keywords: *fiscal consolidation, macroeconomic effects, uncertainty, budget deficit, public debt, state budget expenditures, external financing, fiscal multiplier.*

This article assesses the macroeconomic effects of fiscal consolidation in Ukraine over the 2025–2029 horizon under conditions of radical uncertainty. Its central argument is that Ukrainian consolidation cannot be adequately interpreted within the standard framework of discretionary fiscal tightening, because its scale, pace and even its starting date are determined largely by factors beyond government control — the duration of hostilities and the rhythm of external financing. The empirical basis comprises the indicators of the Budget Declaration for 2027–2029, monthly state budget execution data and public debt statistics.

The planned adjustment is exceptional by international standards. State budget expenditures decline from 61.3% of GDP in 2025 to 30.4% in 2029, that is by 30.9 percentage points over four years, revenues fall from 42.9% to 24.9% of GDP, and the deficit from 18.3% to 5.5%. In nominal terms expenditures decrease from UAH 5,473.6 billion to UAH 4,545.1 billion, which, given cumulative inflation of 34.4%, corresponds to

a real contraction of approximately 38%. The consolidation is strongly back-loaded, with almost the entire adjustment concentrated in 2028–2029.

A key analytical result concerns the nature of this adjustment. Since the decline in expenditures is largely mirrored by a decline in revenues caused by the phasing-out of grant support, the net fiscal tightening amounts to only 12.8 percentage points of GDP rather than 30.9. Non-tax revenues contract from UAH 1,217.6 billion in 2025 to a planned UAH 359.0 billion in 2026, while the share of tax revenues in total revenues rises from 52.6% to 93.2%. What appears as severe consolidation is therefore largely a normalisation of the revenue structure.

The composition of the adjustment reveals a deep structural rotation. Security and defence expenditures fall from UAH 3,889.2 billion to UAH 1,706.3 billion, reducing their share from 71.1% to 37.5%, whereas general public functions, which mainly accumulate debt servicing, grow by 158.8% and raise their share from 8.0% to 25.0%. Consolidation thus does not release fiscal space for development but redistributes it towards debt service, while social protection expenditures contract by about 20% and expenditures on economic activity by about 17% in real terms.

Fiscal uncertainty is quantified by comparing three consecutive budget declarations for identical years. Its distribution is markedly asymmetric: revenue projections for 2027 were revised within 8%, whereas expenditure projections changed by 44.8% and the deficit projection by 229.2%. Fiscal uncertainty in Ukraine is therefore essentially uncertainty about defence expenditures and a derivative of uncertainty about the duration of the war. Given the contractionary effect of fiscal policy uncertainty and lower multipliers in high-uncertainty regimes, such revisions constitute an independent source of macroeconomic losses.

The first half of 2026 illustrates the risk of managed consolidation being replaced by an involuntary one. Revenues were executed at 107.5% of plan, yet expenditures reached only 91.4% and the deficit 49.0% of the planned amount — not because of fiscal discipline, but because borrowings were executed at 45.4% and net borrowings at 25.4% of plan, with external inflows arriving extremely unevenly. Meanwhile the external share of public and publicly guaranteed debt rose from 58.4% at the end of 2021 to 78.0% by the end of May 2026, and debt peaks at 114.2% of GDP in 2028.

The article concludes that the government's projection of accelerating growth alongside such a contraction is internally consistent only if hostilities cease, private investment replaces public demand, and a substantial part of the reduced expenditures is import-intensive. The proposed policy directions include separating the passive and discretionary components of consolidation in budget documentation, moving to scenario-based budget declarations, protecting expenditure items with high domestic multipliers, active debt portfolio management, institutionalising spending reviews and expenditure ceilings, and formalising coordination with monetary policy.

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