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WAR BONDS AS A FINANCIAL INSTRUMENT FOR LOCAL GOVERNMENTS

A full-scale military invasion significantly changed the financial system of Ukraine. The economy was supported by international aid and the government's debt policy. Of particular importance during this period were domestic government bonds (DGB), which were called war bonds during martial law, and which raised UAH 1,311 billion. The purpose of the study was to investigate the state of circulation of domestic government bonds belonging to territorial communities and free balances of budget funds of local communities. The study applied methods of comparative, structural, economic, and statistical analysis, compared indicators in the war and pre-war period of free budget balances at the beginning, calculated the share of DGBs belonging to territorial communities, which was only 0.04%. It was established that half of the free budget balances of local communities belonged to front-line territories. Although the legislation of Ukraine restricts the use of the free balance of budget funds, it is allowed to use in particular to support the defence forces, create conditions for the treatment, restoration, and rehabilitation of persons affected by the armed aggression of the Russian Federation against Ukraine; for measures and work on territorial defence and mobilisation training; design, construction, repair of civil protection structures (storage facilities, anti-radiation shelters), dual-use structures and arrangement of premises that are planned to be used to shelter the population; construction of fortifications, purchase of medicines and dressings for other purposes. The growth rate of free budget balances of local communities during the war period indicates inefficient use of financial resources. In the pre-war period, local communities actively used deposits to place free budget balances. Despite the growth of free budget balances, the volume of war bonds owned by territorial communities is decreasing. The possibility of placing free budget balances on deposits is limited in wartime by the need to purchase government securities in the amount of at least 50% of the funds placed on deposits. The study is of practical importance for local self-government bodies and state institutions, contributing to decision-making on the circulation of DGBs and the management of free budget balances. In the scientific sphere, it serves as a source of information for investigating the debt policy of the state

Keywords: *free budget balances; local communities; government bonds; government debt; deposit.*

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ВІЙСЬКОВІ ОБЛІГАЦІЇ ЯК ФІНАНСОВИЙ ІНСТРУМЕНТ ДЛЯ ОРГАНІВ МІСЦЕВОГО САМОВРЯДУВАННЯ

Повномаштабне військове вторгнення суттєво змінило фінансову систему України. Підтримку економіки забезпечили міжнародна допомога та боргова політика держави. Особливого значення в цей період набули облігації внутрішніх державних позик(ОВДП) які в період воєнного стану отримали назву військових облігацій, та завдяки яким було залучено 1 311 млрд грн. Метою дослідження було вивчення стану обігу облігацій внутрішньої державної позики, що належать територіальним громадам, та вільних залишків бюджетних коштів місцевих громад. В дослідженні застосовано методи порівняльного, структурного, економіко-статистичного аналізу, співставлено показники у воєнний і довоєнний період вільних залишків бюджетних коштів на початок, розраховано частку ОВДП, що належать територіальним громадам, яка становила лише 0,04%. Встановлено,

що половина вільних залишків бюджетних коштів місцевих громад відносилися до фронтових територій. Хоча законодавством України обмежено використання вільного залишку бюджетних коштів, але дозволено використання зокрема на підтримку сил оборони, створення умов для лікування, відновлення та реабілітації осіб, які постраждали внаслідок збройної агресії російської федерації проти України; на заходи та роботи з територіальної оборони та мобілізаційної підготовки; проектування, будівництво, ремонт захисних споруд цивільного захисту (сховищ, протирадіаційних укриттів), споруд подвійного призначення та облаштування приміщень, які плануються до використання для укриття населення; будівництво фортифікаційних споруд, придбання медикаментів та перев'язувальних матеріалів інші цілі. Темп зростання вільних залишків бюджетних коштів місцевих громад у воєнний період свідчить про неефективне використання фінансових ресурсів. У довоєнний період місцеві громади активно використовували депозити для розміщення вільних залишків бюджетних коштів. Попри зростання вільних залишків бюджетних коштів, обсяг військових облигацій у власності територіальних громад скорочується. Можливість розміщення на депозитах вільних залишків бюджетних коштів обмежено у воєнний час необхідністю купівлі державних цінних паперів на суму не менше 50% від коштів розміщених на депозитах. Дослідження має практичне значення для органів місцевого самоврядування та державних установ, сприяючи прийняттю рішень щодо обігу ОВДП та управління вільними залишками бюджетних коштів. У науковій сфері воно слугує джерелом інформації для вивчення боргової політики держави

Ключові слова: вільні бюджетні залишки; місцеві громади; державні облигації; державний борг; депозит.

Introduction. The relevance of research in the area of financing the state budget deficit under martial law is high and critical in terms of national security and stability of the state. According to the published report by D. Andrienko et al. (2024), indirect financial losses for the Ukrainian economy in July 2024 as a result of the military aggression of the Russian Federation exceeded USD 1.1 trillion [1]. This led to a decrease in welfare for citizens, deterioration in business activity among business entities, an increase in unemployment and inflation. As of the beginning of the year, more than 5 million Ukrainians have travelled abroad, the vast majority of whom are women and children. The share of Ukrainian refugees in Germany is 30%, in Poland – 22%. In addition, since the beginning of the full-scale invasion, the United States has received 280 thousand people from Ukraine, the United Kingdom – 253.2 thousand people, and Canada – 210.2 thousand people. Under such conditions, debt instruments proved to be the only way to save the financial system. Due to the help of international partners and attraction from war bonds, the public finance system of Ukraine has experienced the most difficult period since independence.

Many economic scientists have developed an interest in analysing debt policy. According to I. Chugunov et al. (2019), improvement of the public administration system depends on improving the effectiveness of debt policy instruments [7]. O.M. Chubka (2023) noted that under martial law, Ukraine spends about USD 10 billion per month [6]. The need to fill the state budget to counter the Russian aggressor has led to the need for public domestic borrowing through the gradual issuance of military bonds. N. Zamkova & I.V. Hnidyuk (2022) conclude that before the Russian invasion, the strategy of public debt management for the medium term, where the main element of public domestic debt was debt on securities issued on the domestic market, was the debt on the domestic market [27]. T. Bogdan (2022) found that the budget deficit indicators reflect the amount of financing for the needs of the Ukrainian economy, and increasing the role of foreign creditors, attracting government loans, including due to chronic problems of the domestic financial market [4].

K. Sochka (2022) is convinced that public debt management is one of the priorities of the government's financial policy [2022]. As a result of borrowing financial resources in the domestic and foreign markets, the government increases the indicator of the country's public debt, but it allows financing security measures, innovation and investment programmes, infrastructure development, restore facilities as a result of military operations or natural disasters, and finance the state budget deficit. T.Ya. Marshalok (2023) is the opponent of the active use of state involvement [14]. The researcher suggests that the efforts of the domestic government should be aimed at finding irrevocable money, that is, grants, volunteer assistance, which will not lead to the accumulation of further debt burden and will not affect public finances in the future. In addition, it is necessary to start preparing for negotiations with creditors on debt restructuring and, most importantly, to focus on creating an attractive investment environment.

Military aggression has forced a change in budget priorities to ensure defence capability and solve humanitarian problems. Therefore, researchers paid considerable attention to the analysis of the assistance provided to Ukraine, which was able to provide the necessary amount of funds for the functioning and restoration of important sectors of the economy. Although international grants and loans have helped to reduce the impact of the budget deficit and contributed to the country's development, changes in the level of public debt may affect the future prospects for Ukraine's economic development. Concerns about further growth of the debt burden are expressed by V.P. Horyn et al. (2023): the structure of debt financing of the country's budget deficit and the amount of accumulated public debt indicate an increase in the level of debt dependence, which increases the likelihood of a debt crisis [9]. Therefore, in order to avoid these consequences, the government's debt management and compliance with a safe level of debt burden should play an important role. A similar opinion is held by O.H. Bilorus et al. (2023) in the context of ensuring fiscal stability, it is necessary to anticipate the development of the institutional system in the field of taxation, considering modern approaches tested by the global fiscal system, instead of increasing the debt burden [3].

O.R. Zakhidna & N.B. Bundz (2022) investigated the state of local budgets in wartime [26]. Due to the significant movement of the population and industry from the war zones to the central and western regions, budget execution indicators in these territories have increased. However, according to the conclusions of researchers, the financial risks to local finances remain quite high both in terms of further revenues and financing other challenges, such as energy problems, food supply for displaced persons, etc. Therefore, local councils need to step up cooperation with international partners to attract additional financial resources, and the domestic government needs to strive to reduce spending powers.

However, the growth of state needs and the instability of international aid prompted territorial communities, including the communities of Lviv and Vinnytsia, to enter the domestic government bond market. Despite the active start, the dynamics of buying domestic government bonds by territorial communities in 2024 sharply decreased. According to the conclusions of N. Bak & A. Kharovska (2023), the dependence of the country's budget has increased on the results of taxation of various types of income of the population, and real estate objects, and the main burden of budget financing for defence needs is borne by the subjects of the official economy and the population [2]. Territorial communities in the rear regions received an increase in tax revenues precisely because of the war, and not because of their own structural changes. A similar opinion regarding the implementation of local budget revenues was expressed by H.V. Vozniak & V.M. Koval (2022) and the situation will depend on the intensity of hostilities, and due to the military aggression of the Russian Federation, local budgets of many communities do not receive planned revenues, and revenues do not cover even the minimum costs for fulfilling the powers defined by law [25].

Scientific research devoted to debt (financial) instruments of local self-government bodies is extremely limited, or almost absent, so the purpose of the study was to determine the effectiveness of the use of financial instruments by local self-government bodies, analyse their free balance of budget funds, and apply domestic bonds under martial law.

Materials and Methods. To achieve the goal of the study, a set of methods was used to assess the effectiveness of managing the financial resources of local self-government bodies, in particular, the analysis of the free balance of budget funds and the use of domestic government bonds (DGB) under martial law. In the process of fulfilling the tasks set, the method of systematic analysis of literature sources was applied, which allowed to investigate the existing theoretical approaches to debt policy, the method of analysis and synthesis allowed to identify indicators of the circulation of securities owned by territorial communities, and to study indicators in general with other subjects. In general, the research methodology was based on the application of systematic, logical, comparative, and abstract-logical approaches.

The method of comparative analysis was used to investigate changes in the volume and structure of free balances of funds in local budgets on the example of different regions. This helped to identify the dynamics of the use of financial resources of local communities and determine the specifics of the distribution of funds in different periods, considering the specifics of wartime conditions. Comparative analysis was carried out in tables and conclusions were provided.

The method of structural analysis provided a detailed overview of the structure of local budget revenues and expenditures for the general fund, considering regulatory changes in the budget system. It was used to assess the feasibility and effectiveness of placing temporarily available funds on deposit accounts with banks and DGBs. Using economic and statistical methods, the growth rate of the free balance of funds in the budgets of various regions for the period 2021-2024 was calculated and analysed. The analysis of changes in budgets over the years helped to assess the impact of martial law on the financial viability of local budgets. This allowed defining a legal framework for managing budget balances in the face of restrictions related to military conflict.

The paper also used a graphical method to visualise the dynamics of the circulation of DGBs owned by territorial communities and the volume of deposits of local budgets in banks. Charts and graphs were developed based on processed statistical data, which clearly demonstrated trends in the placement of budget funds.

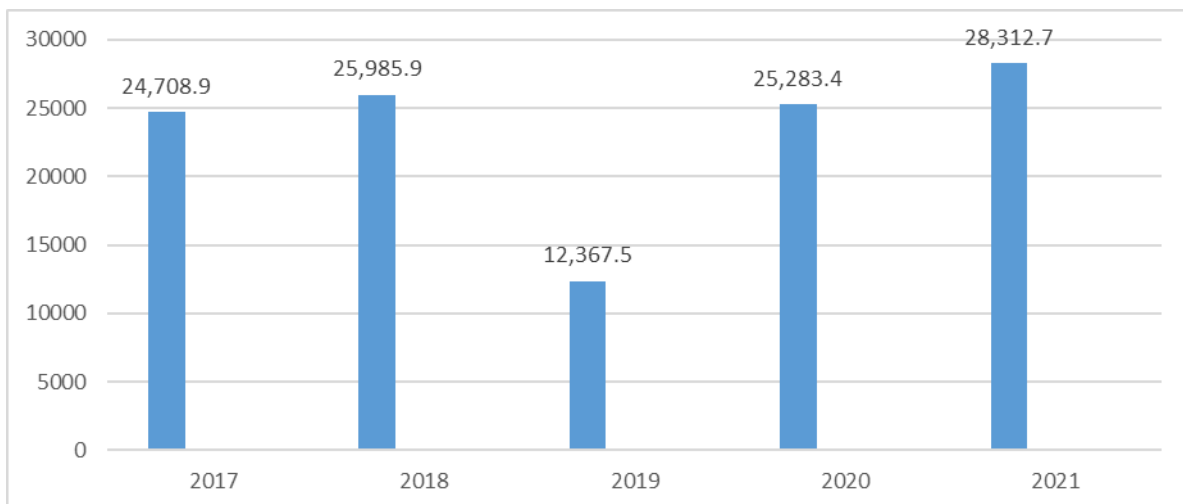
The method of expert assessments based on the position of statesmen such as Gennadiy Zubko (2018) determined the compliance of indicators of local finance development with the conditions of decentralisation. The study used a historical method that allowed analysing the process of circulation of budget balances in dynamics, establishing its connection with specific political and economic events in the country. An experimental method was also used to investigate the reasons for the significant amount of budget balances in the Luhansk Oblast.

The information base of the study was formed by research papers, legislative acts of the Verkhovna Rada of Ukraine, and resolutions of the Cabinet of Ministers of Ukraine, information from the official websites of the National Bank of Ukraine, the State Treasury of Ukraine and requests for public information to the Ministry of Economy of Ukraine.

Results. In the process of decentralisation of power, communities were given the opportunity and need to form financially sound local budgets. Changes in the structure of local budget revenues and expenditures have strengthened and increased them. Due to savings in budget expenditures or when the revenue part of the budget is exceeded, a free balance is formed. Every year, after approval by the local self-government body of the annual report on the implementation of the local budget, the free balance of budget funds is available to meet the relevant needs of the community's life. Thus, temporarily free funds of the local budget are defined as such funds that are accounted for in the accounts of a special budget fund, the diversion of which will not lead to a loss

of solvency of the local budget and/or the emergence of debt under the relevant local budget during the period for which it is planned to place such funds on deposit accounts in banks (Resolution of the Cabinet of Ministers of Ukraine No. 6, 2021) [20].

Local self-government bodies received the opportunity to place funds and receive interest with their crediting to the revenue side of the relevant local budget in 1997 due to the adopted Law of Ukraine No. 280/97-BP (1997) [11]. Although until 2011, free balances could only be placed in securities, and since 2011 – on deposits (Resolution of the Cabinet of Ministers of Ukraine No. 544, 2018) [19]. Since most local budgets from the beginning of independence to 2017 were in short supply, there was no active growth in the placement of funds on deposit accounts. After the introduction of budget decentralisation measures, there was a significant redistribution of financial resources and the powers of local self-government bodies were expanded, which led to a rapid increase in deposits: from UAH 0.1 million in 2014 to UAH 24 billion in 2017 (Serebryanska, 2018) [21]. In the next five years, there was a more stable schedule for placing free funds on deposit accounts. The decline in deposits in 2019 was related to the decision of the Ministry of Finance of Ukraine of 23.01.2019 to prohibit communities from placing temporarily available funds of the general fund on deposit accounts, but this ban was appealed and cancelled. From deposits in 2017, local governments earned UAH 1.9 billion for communities, which is 46% more than in the previous year. The highest deposit rate was 14%, the average – 8% (Gennadiy Zubko believes that funds from local budgets should work for communities, not for bank interest, 2018) [8]. As of 01.01.2022, UAH 250 million were unreturned funds of local communities on the accounts of liquidated/ troubled banks (Official website of the State Treasury Service, n.d.) [17]. The schedule of placement of deposit funds by local communities in 2017-2021 is shown in Figure 1.



Source: developed by the author based on data from the Official website of the State Treasury Service (n.d.) [15].

Figure 1. Schedule of placement of funds by local budgets on deposit accounts with banks for 2017–2021, mln UAH

Since May 2018, local governments have had the opportunity to invest in domestic government bonds (Resolution of the Cabinet of Ministers of Ukraine No. 544, 2018), but local budgets were in no hurry to buy government bonds. In the absence of clear instructions and rules for conducting such operations, local communities did not risk using this financial instrument [19]. The yield on DGBs reached 16–18% on certificates of deposit, which is twice as high as the deposit rates. Temporarily available funds were also placed by purchasing government securities with a maturity of up to one year (short-term government bonds), from one to five years (medium-term

government bonds) and more than five years (long-term government bonds). In the case of purchases of government securities for a period of more than one year, there was a surplus in the local budget, and in the case of receipts due to the sale / presentation of securities – a budget deficit (Bilorus *et al.*, 2023). The acquisition of government securities helped to increase the efficiency of using temporarily available funds from local budgets by obtaining a high percentage income and returning the principal amount under state guarantees. The placement of DGBs was carried out through the bank, as the primary dealer, with whom it is necessary to conclude an agreement on servicing the securities account and an agreement on brokerage services on the government securities market. Local communities were entitled to non-competitive applications for the purchase of government securities, which are satisfied at the weighted average level of bond yields.

During the period of martial law, the state of local finances underwent changes. The ability of budgets of all levels to spend funds is limited, and the permitted areas for using the free balance are:

- remuneration of labour and accruals for salaries of employees of budgetary institutions;
- purchase of medicines and food;
- social security and utility costs;
- expenses for the treatment and rehabilitation of persons affected by the armed aggression of the Russian Federation against Ukraine;
- expenditures on territorial defence and mobilisation training activities, support for security and defence forces;
- construction of fortifications or civil protection structures to shelter the population;
- payments under warranty obligations (with the possibility of transferring such funds to another local budget).

It was also allowed to place the free balance of budget funds also on deposits, provided that government securities were purchased in the amount of at least 50% of the funds placed on deposits (Resolution of the Cabinet of Ministers of Ukraine No. 523, 2023) [18]. Admittedly, the placement of available funds requires first of all an analysis of the availability of the appropriate resource. In accordance with Table 1, the state and changes in the current year's free balances for the general fund up to the same date in 2021 in the pre-war period are analysed.

Table 1

Information on free balances of local budgets for the general fund

Name of the budget	Amount of free fund balances (not distributed) as of		growth rate 2024/2021, %
	01.10.2021 (thous. UAH)	01.10.2024 (thous. UAH)	
Consolidated budget of Vinnytsia Oblast	311,088.60	354,892.30	114.08
Consolidated budget of Volyn Oblast	25,235.90	68,306.70	270.67
Consolidated budget of Dnipropetrovsk Oblast	124,813.60	804,350.90	644.44
Consolidated budget of Donetsk Oblast	149,686.10	6,596,175.10	4,406.67
Consolidated budget of Zhytomyr Oblast	84,817.30	149,838.20	176.66
Consolidated budget of Zakarpattia Oblast	44,375.50	16,353.40	36.85
Consolidated budget of Zaporizhzhia Oblast	68,551.40	676,837.00	987.34
Consolidated budget of Ivano-Frankivsk Oblast	40,608.50	80,863.90	199.13
Consolidated budget of Kyiv Oblast	309,519.50	1,682,143.20	543.47
Consolidated budget of Kirovohrad Oblast	25,081.80	80,424.20	320.65
Consolidated budget of Luhansk Oblast	60,801.40	4,351,728.30	7,157.28
Consolidated budget of Lviv Oblast	137,526.40	404,236.20	293.93

End Table 1

Name of the budget	Amount of free fund balances (not distributed) as of		growth rate 2024/2021, %
	01.10.2021 (thous. UAH)	01.10.2024 (thous. UAH)	
Consolidated budget of Mykolaiv Oblast	72,451.80	559,382.80	772.08
Consolidated budget of Odesa Oblast	99,775.00	681,755.50	683.29
Consolidated budget of Poltava Oblast	78,062.60	360,846.60	462.25
Consolidated budget of Rivne Oblast	38,205.40	20,380.30	53.34
Consolidated budget of Sumy Oblast	26,658.50	138,172.70	518.31
Consolidated budget of Ternopil Oblast	24,210.70	117,033.30	483.39
Consolidated budget of Kharkiv Oblast	212,493.80	866,314.80	407.69
Consolidated budget of Kherson Oblast	24,274.40	2,262,202.90	9,319.29
Consolidated budget of Khmelnytskyi Oblast	30,323.20	140,983.10	464.93
Consolidated budget of Cherkasy Oblast	38,688.40	248,975.10	643.54
Consolidated budget of Chernivtsi Oblast	29,655.80	228,687.80	771.14
Consolidated budget of Chernihiv Oblast	61,639.20	554,206.30	899.11
Budget of the city of Kyiv	1,393.50	0	0.00
Total:	2,119,938.30	21,445,090.40	1,011.59

Source: developed by the author based on data from the Official website of the State Treasury Service (n.d.) [17].

Thus, the growth rate of the indicator was 1,021% and there is an increase in most regional budgets. 51% of the volume of available funds as of 01.10.2024 falls on the Donetsk and Luhansk oblasts, where active military operations are conducted, a large territory is under occupation and, accordingly, local self-government and state authorities do not exercise their powers. According to Table 2, the indicator of excess of revenues over expenditures of the consolidated regional budget of the Luhansk Oblast for 2022-2023 amounted to UAH 1.5 billion.

Table 2

**Information on the implementation of the consolidated budget
of the Luhansk Oblast for 2022–2023 during martial law**

Year	Consolidated budget implementation rate by revenue, thous. UAH	Indicator of implementation of the consolidated budget by expenditure, thous. UAH
2023	1,412.90	543.89
2022	1,526.87	880.80
Total	2,939.77	1,424.69

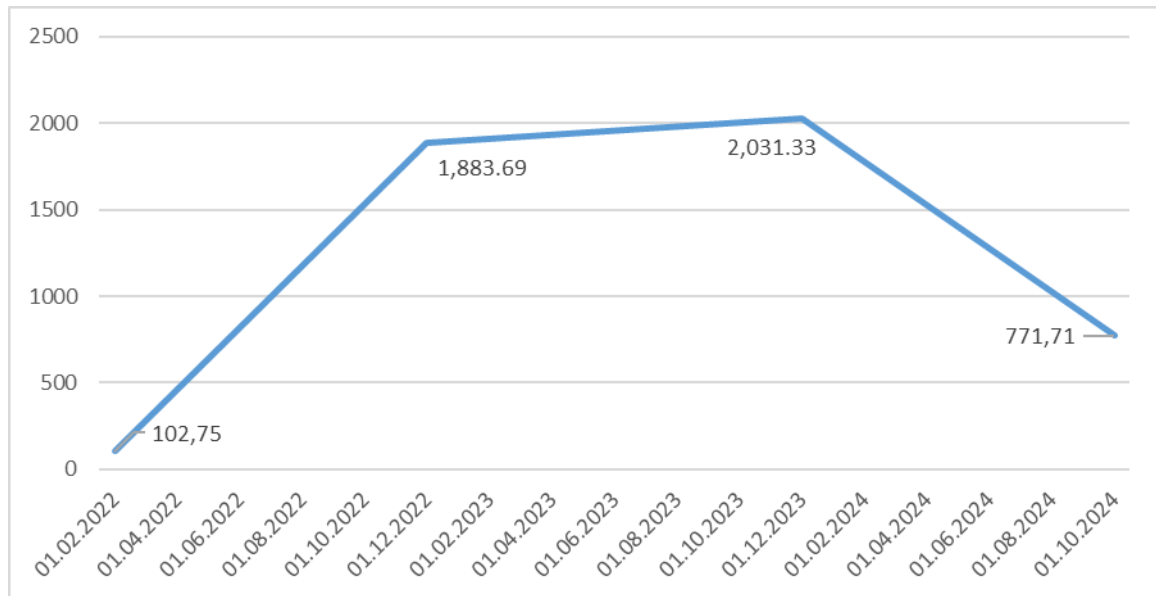
Source: developed by the author based on official data from the Official website of the Luhansk Regional State Administration (n.d.) [15].

It was significant that according to the consolidated budget of the Luhansk Oblast in 2021, the general fund was UAH 60.8 million of free balances, and already in 2024, such balances amounted to UAH 4.3 billion [15]. Consequently, there was a discrepancy between the accounting and use of the unallocated balance of free budget funds after a full-scale military aggression and subsequent occupation of the region. In general, the growth of budget balances of local budgets in wartime indicated inefficient use of financial resources.

In order to quickly accumulate financial resources, the Ministry of Finance of Ukraine in March 2022 launched auctions for the sale of domestic government bonds, which were called military bonds (Official website of the National Bank of Ukraine, n.d.) [16]. The attracted

investments in the state budget of Ukraine were used to ensure uninterrupted financial needs of the state under martial law, both social and defence. Although local communities were not active market participants, but according to N. Karnauch (2022), Lviv City Council was the first to buy war bonds [10].

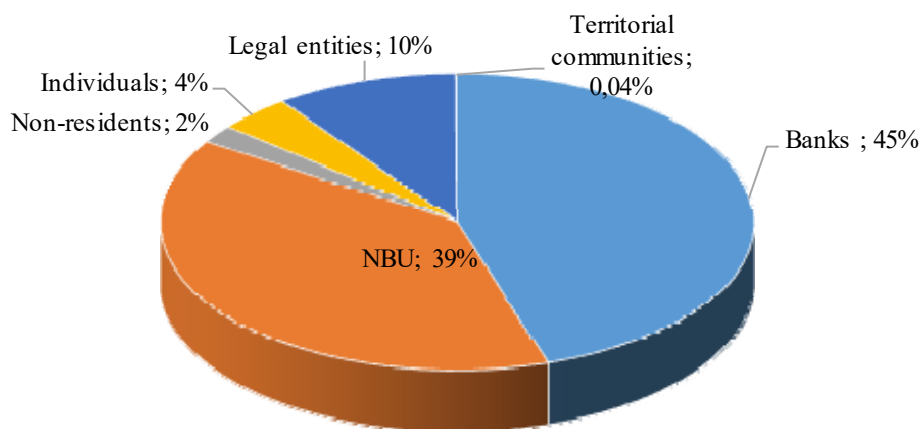
Figure 2 shows the dynamics of circulation of DGBs owned by territorial communities from 24.02.2022 to 01.10.2024. As can be seen from the chart, at the beginning of 2024, there was a decline in the activity of territorial communities in purchasing DGBs.



Source: developed by the author based on data from the Official website of the National Bank of Ukraine (n.d.) [16].

Figure 2. Dynamics of circulation of DGBs owned by territorial communities from 24.02.2022 to 01.10.2024, thousand UAH

In total, UAH 1,311 billion was raised to the budget for the period of martial law under 944,382 transactions (Official website of the National Bank of Ukraine, n.d.) [16]. Figure 3 shows the share of DGBs owned by territorial communities, which is only 0.04%.



Source: developed by the author based on data from the Official website of the National Bank of Ukraine (n.d.) [16].

Figure 3. Share of DGBs owned by territorial communities as of 01.10.2024

Since security and defence remains a priority and the largest item of expenditure of the state budget of Ukraine, a total of UAH 1.843 trillion, or 60.8% of the country's state budget, was spent on this sector in 2023.

In September 2024, the Verkhovna Rada of Ukraine adopted a draft law that should ensure, in particular, the restoration of medium-term budget planning at the local level, rationing the approval of the local budget with a deficit or surplus for the general fund in the case of purchasing government securities for a period of more than one year, which should have a positive impact on the government securities market (Law of Ukraine No. 3979-IX, 2024) [12].

War bonds occupy an important place in the country's financial system to ensure defence capability, and self-government bodies should use resources more efficiently during martial law.

Discussion. N. Zamkova & I.V. Hnidyuk (2022) noted the leading role of securities in the structure of public debt, and given the fall in GDP in Ukraine, the lack of a forecast for the duration of the war in Ukraine, focused on the further need to raise funds for post-war recovery. The researchers noted the need to restructure the state debts of Ukraine [27]. O.M. Chubka (2023) determined the share of government bonds in the debt structure, made conclusions about the importance of using this financial instrument during martial law, gave an analysis of bond yields, defined the categories of depositors, while not paying attention to local communities that actively began to buy government securities in 2022–2023 [6]. Although it was interesting to analyse the structure of the placement of war bonds by currency in the context of investor categories, individuals preferred to invest in war bonds issued in USD – 96.54% against 3.26% of bonds accounted for the national currency. The advantages of USD-denominated bonds for individuals are the higher yields than on USD-denominated deposits and the absence of interest taxation. A similar situation was observed for legal entities, where 73% are placed in foreign currency and 23% in national currency. Non-residents, on the contrary, carried out 92% of transactions in UAH.

H.V. Vozniak & V.M. Koval (2022) examined the state of local budgets in wartime, noted an unstable forecast of further revenues [25], and N. Bak & A. Kharovska (2023) analysed the budgets of the rear regions and focuses mainly on income from tax revenues, and not from the placement of available funds [2]. Among the vectors, the researcher's attention was focused on the objective reduction of the existing tax base; influencing pricing processes in the markets of goods and capital; changes in tax policy (legislation); new variations of dishonest behaviour of taxpayers; not always reasonable and productive improvement of tax payment management and administration procedures by regulatory authorities. Structural analysis of local budget revenues was carried out by O.R. Zakhidna & N.B. Bundz (2022) and recommendations were made for further raising funds from international partners [26]. It was noted that the Zakarpattia, Volyn, Lviv, Rivne, and Chernivtsi oblasts show good results in the implementation of local budgets. Therefore, it is concluded that communities can effectively manage and increase the financial resources received, respond adequately to unpredictable challenges, and ensure a high level of service delivery.

Concerns about the growth of government debt obligations were expressed by such researchers as O.H. Bilorus et al. (2023) [3], V.P. Horyn et al. (2023) [9], of course, the weak institutional autonomy of local budgets from the state, wartime can affect the conditions for returning funds on bonds. The budget deficit was investigated as the root cause of the need to raise funds. Researchers focused on receiving grants or participating in programmes to support businesses, which should have a positive impact on the national economy. This deficit was caused by a reduction in budget revenues, such as taxes and non-tax revenues, or an irrational increase in expenditures, due to the mass departure of the working-age population abroad, the shutdown of production activities of individual enterprises, and the occupation of part of the territory. Rational management of the budget deficit and investment in development can turn a challenge for Ukraine into an opportunity, contributing to the country's sustainable growth and prosperity. The researchers

have confirmed that the state is making significant efforts to make the process of investing in war bonds extremely attractive to a wide range of investors. Several financial institutions have reduced or completely abolished fees for operations with military bonds and actively began to cooperate with small investors. The researchers noted that in some periods, rates on bonds in UAH reached 19.5% per annum. The measures were taken to ensure financial stability and attract investors in difficult times of military conflict. The increase in interest rates reflected increased risk and required the state to pay more interest to investors, which stimulated investment in war bonds. However, according to O.Ya. Stoyko & I.A. Shubenko (2021), debt growth increases liquidity risks and increases currency risk for performing basic government functions [23].

Foreign experience of post-war reconstruction was noted by T.H. Bui & O.K. Primierova (2023), in particular, the use of government securities in Israel, Germany, and vice versa, restrictions in Japan [5]. The need to reduce sovereign debt is considered to be one of the most important areas of public finance recovery. A regulated issue of DGBs, in particular war bonds, is the best solution during the war, but in the post-war period, all government bonds should be suspended for a certain period of time and the previously issued obligations should be paid off. Grants and joint projects on a fundraising basis offer an alternative to such funding. The researchers noted that an effective way to attract financial resources is to create fundraising platforms that accumulate funds inside and outside the country. Targeted fundraising does not affect the level of public debt without reducing the expenditure side of the budget for other important areas. The example of the United24 platform, which has raised more than UAH 237 million from more than 100 countries, is provided. Both the Ministry of Defence and the Ministry of Infrastructure are funded under this initiative.

The key to the effectiveness of financial management in the regions was considered to be advanced training of local self-government bodies, so it is proposed to attract international specialists. This conclusion was made due to the inability of most communities to independently raise funds, optimise expenditures, or carry out effective placement in conditions of budget deficits. Therefore, there is a need for cooperation of territorial communities between regions and with foreign partners. I.O. Tarasenko et al. (2023) suggest that post-war reconstruction will require no less radical mechanisms to finance budget deficits [24].

S. Mackintosh (2021) reviewed the study of the famous economist Robert Shiller, where he explained the inefficiency of the financial market by the irrationality of investors, which became the basis for further scientific research in behavioural economics, but may be relevant to the research topic [13]. Ultimately, the results of the study showed an increase in free budget funds in local communities, which, if there is a deficit to finance defence and social areas in the state, can be explained precisely by the irrational distribution of funds in wartime.

Conclusions. This study analysed the free balances of local budgets and the use of such financial instruments by self-government bodies as domestic government bonds. As a result of budget decentralisation, local budgets received a significant resource, which communities mainly devoted to placing on deposits, while such a financial instrument as DGBs was not used enough by communities, although the yield was twice as high as for deposits.

During the full-scale war, domestic loan bonds became an important source of filling the budget to ensure defence spending; 80% of the annual "military budget" of Ukraine is covered due to military bonds. Despite martial law, territorial communities have stabilised their own budgets mainly due to the relocation of enterprises and the movement of the population from the eastern regions. However, in the context of the country's acute budget deficit, discussions about raising taxes, energy prices, and rising inflation, an increase in free budget balances for the general fund was established in most regions of the country and by 1,020% in the whole country. Half of these

remnants belong to the frontline territories. The legislation allows spending the remaining funds on supporting the defence forces, building fortifications, and other activities.

Funds placed by local communities in DGBs gave a higher yield compared to bank deposits and payments are guaranteed by the state. Despite having an unallocated, free budget balance, communities have reduced their activity in purchasing government bonds, but are not using them for other purposes. This trend may indicate inefficient financial policies of local communities and the country as a whole.

The study analysed the use of domestic government bonds by territorial communities, compared the state of the free balance of budget funds, and also characterised the common features and differences of the results obtained with the conclusions of other researchers who investigated the issues of debt policy of the state during the war period. In further research on the use of financial instruments by local self-government bodies, it is necessary to assess the dynamics of growth of the remaining free funds of local budgets under a special fund, determine the reasons for the decrease in the placement of funds by local communities in war bonds, and the state of use of other forms of resource mobilisation.

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