NATIONAL ECONOMY’S DEVELOPMENT IN THE COORDINATES OF SUSTAINABLE DEVELOPMENT: ON THE ISSUE OF STRATEGIC STATE REGULATION UNDER RUSSIAN ARMED AGGRESSION

ABSTRACT

Russia’s armed aggression has caused a deep socio-economic crisis and has far-reaching unpredictable consequences for the national economy. One of the key negative consequences of Russia’s armed aggression is the threat to the sustainable development of the national economy. All aspects of sustainable development in Ukraine are affected: economic development, environmental protection, social and gender equality, etc. Under Russian armed aggression, there is an urgent need for balanced and sound strategic state regulation, which is designed to ensure sustainable development in Ukraine in the short and long term. The aim of the paper is to determine the features of strategic state regulation under Russia’s armed aggression in the development of the national economy in the coordinates of sustainable development. The paper considers Ukraine’s progress in achieving the goals of sustainable development. The most problematic areas in terms of sustainable development goals are outlined with a focus on Russia’s armed aggression as the major cause. An overview of the situation in the world in terms of the conflict level is performed, common features in the field of sustainable development in countries affected by armed aggression are highlighted. It is emphasized that the difficulties in achieving the goals of sustainable development are complex in nature. Sustainable development drivers are both of financial and non-financial nature. Four key factors that hinder the achievement of sustainable development goals at the present stage are considered: 1. Liquidity shortage globally; 2. Complicated access to debt financing; 3. The need for urgent financial measures; 4. The need to increase productivity and productive capacity. A description of the UNDP scenario on the development of the consequences of Russian armed aggression in the field of poverty in Ukraine is given. The key areas of focus for a set of Government measures in the context of a large-scale socio-economic crisis have been identified. The importance of applying a coordinated and sound policy of the Government under Russian armed aggression was emphasized. Special attention is paid to the need to use a flexible approach in developing a set of measures for strategic governmental regulation to ensure sustainable development. The importance of applying digitalization achievements in the context of implementing support programs for citizens and businesses was emphasized.

Keywords: sustainable development, Russian armed aggression, strategic state regulation, social support, business support, digitalization

JEL Classification: G18, O10

INTRODUCTION

Russian armed aggression in Ukraine has created a number of socio-economic challenges. One of these challenges is the threat to the sustainable development of the national economy. The consequences of Russian armed aggression are large-scale and unpredictable. Sustainable development in Ukraine has suffered significant losses in the short- and long-term horizon as a result of the war in various aspects. Against the background of the unpredictable course of the war, as well as the socio-economic crisis caused by Russian armed aggression, there is an urgent need for coordinated and sound
strategic state regulation to support the sustainable development of the national economy.

**LITERATURE REVIEW**

In the context of military aggression and its impact on the sustainable development of the countries of the world, there is a weighty body of research.


However, the problem of supporting the development of the national economy in the context of sustainable development goals against the background of the Russian armed aggression - one of the largest in the history of modern Europe - is insufficiently studied.

The purpose of the article is to determine the specifics of strategic state regulation against the background of Russian armed aggression in the plane of development of the national economy in the coordinates of sustainable development.

**RESEARCH METHODS**

The major focus of this paper is on conducting a review of major drivers in strategic state regulation against the background of Russian armed aggression based on, first of all, research conducted by major analytical centers on recent armed conflicts. The rationale behind such an approach is that research conducted by major analytical centers is the most relevant for the paper’s purpose – being on an intersection of theoretical basis, practical experience, know-how, and vast data at their disposal. Obtained results are synthesized into a set of recommendations regarding a relevant approach for strategic state regulation against the background of Russian armed aggression in the plane of development of the national economy in the coordinates of sustainable development.

We obtained results using the following methods: abstraction (to establish the boundaries of the study), retrospective analysis (to generalize the timeline of a socio-economic crisis provoked by armed aggression), synthesis (to group armed aggression’s socio-economic consequences), content analysis (UNCTAD, UNDP, SANAA, World Bank data, and analytical reports).

The information base of the study is represented by scientific works of leading researchers, and reports of major analytical centers (UNCTAD, UNDP, SANAA, World Bank).

**RESULTS**

As defined by McGill University (Canada) [12], sustainable development is the satisfaction of own needs of economic agents, representing the current generation - without prejudice to future generations in the realization of their task to meet their own needs. It is noted that in addition to natural resources, the concept of sustainable development necessarily includes social and economic resources. Thus, sustainable development is not only the protection of the environment but also the achievement of social justice and economic development.
The Sustainable Development Goals were formed in September 2015 as a result of the UN Summit on Sustainable Development and are encapsulated in “Transforming Our World: The 2030 Agenda for Sustainable Development”. The document contains 17 Sustainable Development Goals and 169 targets. Subsequently, these goals and objectives were integrated into the strategic documents of the governments of countries, including Ukraine.

According to [13] in the context of the implementation of sustainable development goals in 2021, Ukraine takes 36th place out of 165 countries. The level of implementation of sustainable development goals in Ukraine is slightly higher than the average level for the region of Eastern Europe and Central Asia: 75.5 and 71.4, respectively.

In terms of progress on the Sustainable Development Goals:

- Goals No.1 “Overcoming Poverty” and No.10 “Reducing Inequality” are fully implemented.
- Goals No.4 “Quality Education”, No.7 “Accessible and Clean Synergy”, No.12 “Responsible Consumption and Production”, No.17 “Partnership for Sustainable Development” is being implemented satisfactorily.
- Goals No.14 “Protection of Water Ecosystem”, No.15 “Protection of Terrestrial Ecosystems”, No.16 “Peace, Justice, and Strong Institutions” are not met.

From the listed above Sustainable Development Goals and progress on them, we can see that the greatest complications for Ukraine are present in the context of humanitarian, environmental and economic issues. Russian armed aggression is the key reason for the lag in the implementation of the above-mentioned sustainable development goals.

As the editorial on sustainable development in the influential Journal of Family Medicine and Primary Care [14] notes, the security situation in the world as a whole has been characterized by significant instability over the past decade. In particular, there has been an increase in the intensity of terrorist attacks, instability in North Africa as a result of the Arab Spring, the intensification of several internal conflicts in African countries, and a number of terrorist attacks in cities of EU countries, Russian armed aggression in Ukraine. This leads not only to human casualties directly in the place of conflict but also to the refugee crisis observed over the past decade - in 2014 13.9 million people were displaced, four times more than the previous year [14]. There are 19.5 million refugees worldwide, 38.2 million citizens are internally displaced within their own countries (up from 33.3 million in 2013), and more than half of the world’s refugees are children [14].

According to the OECD [15], all 7 countries that have not achieved any of the Millennium Development Goals from the 2015 list have suffered from high levels of conflict in recent years. The Institute for Economics and Peace report [16] on the Global Peace Index for 2018 noted that the global level of security has declined for the fourth year in a row as a result of increasing authoritarianism, increasing political instability in the world, unresolved conflicts in the Middle East and North Africa regions, among others.

The complexity of achieving sustainable development goals is complex and goes beyond the intensification of conflicts in individual countries and regions of the world. Achieving sustainable development goals requires substantial funding. According to UNCTAD [17] estimates, the gap in financing needed to achieve sustainable development goals (in particular, to combat poverty and climate change) is $17.9 trillion for the period from 2020 to 2025. This means that the current annual gap is $3.6 trillion - more than $1 trillion more than during the COVID-19 pandemic - even without taking into account the consequences of Russian armed aggression in Ukraine. In particular, the UNCTAD experts [17] identify 4 factors of financial nature that hinder the achievement of sustainable development goals at the present stage: 1. Narrowing of liquidity in the world; 2. Difficult access to debt financing; 3. The need for urgent monetary measures; 4. The need for productivity growth and the growth of productive capacity.

Let us consider these factors. The rising level of conflict in the world narrows liquidity, especially for developing countries, because investors in such a situation gravitate toward less risky assets. Borrowing costs have already risen since the start of the war, and bond yields have risen an average of 36 basis points. The impact of the war on government spending around the world will put further pressure on available financial aid to meet sustainable development goals (which were already inadequate before). External financial resources for development continue to decline, particularly hurting low- and middle-income countries. At the same time, official development assistance from developed countries averaged only 0.32% of their gross national income in 2020 - less than half of their voluntary commitment of 0.7% of GNP.

Capital flight and less financial aid are significant constraints on sustainable development for developing countries, which are already struggling with high levels of debt. In the short term, there could be massive credit downgrades and sovereign
defaults by a number of developing countries.

More than half of African countries have already experienced a credit rating downgrade by at least one rating agency in 2020. This trend will only worsen against the backdrop of Russian armed aggression in Ukraine. In 2020, the debt-to-GDP ratio in developing countries has risen from 57% to 69% - a 12 p.p. increase. For these countries, about 16% of export earnings are spent on debt payments. The debt burden undermines the ability to develop countries to create public goods. For example, in 2020, the share of government spending on debt service was higher than health spending in 62 developing countries.

The consequences of the war in Ukraine are not only direct but also indirect. Among the indirect consequences is the sharp rise in the prices of food, fuel, and fertilizers. In response to this challenge, urgent financial measures must be taken for developing countries to maintain sustainable development. According to UNCTAD estimates [17], more than 5% of the imports of the poorest countries in the world are commodities, which are suffering the consequences of the Russian armed aggression in Ukraine. This situation calls for urgent financial measures, similar to the programs introduced in response to the socio-economic crisis resulting from the COVID-19 pandemic. One such urgent measure could be the Debt Service Suspension Initiative (DSSI) of the G20 countries to freeze debt payments for low-income countries.

In addition to urgent financial measures to support sustainable development, efforts are needed to increase productivity and increase production capacity. These measures must be permanent and structural. This would enable developing countries to sustain themselves in a self-sufficient state of viability over the medium and long term. In particular, local, regional, and international development banks should carry out such programs for productivity and production capacity growth.

Russian armed aggression has a negative impact on the prospects for sustainable development both in Ukraine and globally. The UN has already reduced the forecast of economic growth in the world in 2022 from 3.6% to 2.6% [17]. The socio-economic crisis is expected not only in Ukraine and Russia but also in many regions of the world, which is caused by economic ties along the value chains and decisions of the governments of the world on economic sanctions. Also, tighter monetary policy will be introduced, access to debt financing will not be as free as in the previous period, and there will be increased volatility in basic commodities (basic products, ores, fuel, etc.).

UNCTAD [17] expects that weakening global demand, insufficient international policy coordination, and rising debt levels as a result of the pandemic will combine to produce financial shocks that could push some countries into a spiral of insolvency, recession, and development stagnation. Even without prolonged shocks to the global financial market, developing countries will face severe constraints on their growth. Public and corporate debt levels rose during the pandemic. This problem will only worsen with the new threat of a global recession. Instability in commodities, currency, and debt markets, provoked by investors’ search for safe ways to invest their money, has already caused capital flight, together with a higher risk premium for the financial liabilities of developing countries.

The war has put further pressure on global energy and basic commodity prices, putting pressure on household budgets and increasing production costs, while international trade disruptions and the effects of sanctions will have a negative impact on long-term investment. The geopolitical crisis that emerged after the coronavirus crisis subsided dealt a blow to domestic confidence. Rising food and fuel prices will have an immediate impact on the most vulnerable populations in developing countries, leading to hunger and financial hardship for households that spend the largest share of their income on food. However, the negative effects in the form of financial losses, reduced purchasing power, and increased real household spending will eventually spread to some degree to all segments of the population.

UNCTAD [17] notes that developing country bond yields have been rising since September 2021, signaling tighter conditions in global financial markets. Since the start of the conflict in Ukraine, developing country yields have risen an average of another 36 basis points, with countries (agricultural products) heavily dependent on food imports experiencing greater growth.

Traditional financial indicators - current account balances and foreign exchange reserves - do not provide a complete picture of vulnerability to changes in the financial environment. Measures of financial inclusion are a better indicator, as many large emerging economies are vulnerable to sudden changes in financial flows.

Another problem area is the growing need to service short-term public debt. Developing countries are expected to need $310 billion to meet their external public debt service requirements in 2022, equivalent to 9.2% of their outstanding foreign public debt. Developing countries are expected to need $310 billion to meet their external public debt service requirements in 2022, equivalent to 9.2% of outstanding external public debt at the end of 2020 [17].

Developed countries will also be influenced by the social and economic consequences of the crisis caused by the Russian armed aggression in Ukraine. Governments of major developed countries are following the course of eliminating the stimuli introduced in response to the coronavirus crisis, namely the abandonment of the program of reducing the discount rate,
asset purchases by the central bank, mass introduction of paid vacations, household and small business allowances. This could lead to a weakening of demand and a halt to economic growth amid rising inflation. Such policies of the governments of developed countries also reduce opportunities for economic growth in developing countries because investments in these countries will be reduced and the cost of attracting financing will increase.

UNCTAD [17] highlighted a number of recommendations to protect the global economy in order to ensure sustainable development against the potential socio-economic crisis caused by the Russian armed aggression in Ukraine:

1. Full financial support for developing countries to counter financial and socio-economic shocks and increase investment to support economic growth;
2. Immediate debt cancellation for Ukraine, together with renewed discussions on a multilateral mechanism that facilitates a fair and orderly restructuring of the sovereign debt of developing countries in times of crisis;
3. More use of Special Drawing Rights (SDR) to supplement official reserves and provide timely liquidity;
4. More orderly and coordinated SWAP arrangements by national central banks to support national currencies;
5. Special sets of measures for individual sectors of the economy and industries to mitigate inflationary effects and price volatility.

It should be noted that Ukraine bears the brunt of Russian armed aggression. According to Humanitarian Country Team [18] estimates, almost 30% of Ukrainians will need humanitarian aid. It is expected that there will be 18 million citizens affected by the Russian armed aggression and more than 7 million internally displaced persons. UNDP forecasts [18] indicate significant difficulties in terms of sustainable development of Ukraine in the short and medium-term, in particular, the national economy and ecology of the country will suffer, and the level of poverty and inequality in society will increase. According to the estimates of the Government, infrastructure worth at least $100 billion will be destroyed. The Government estimates that at least $100 billion worth of infrastructure has been destroyed. As a result of Russian armed aggression, 50% of Ukrainian enterprises have completely shut down, and the remaining 50% have significantly limited their work. Under the scenario of continued full-scale war, 90% of Ukrainians will face poverty. A balanced, coordinated, and targeted government policy to overcome the consequences of the socio-economic crisis is critically important. The above-mentioned government policy must be coordinated and deployed in parallel with ongoing humanitarian measures. An effective system of public administration and the provision of public services is a necessary component.

UNDP experts [18] developed a forecast of Ukrainian household incomes for 2022 in the light of Russian armed aggression, covering 4 scenarios of poverty spreading in Ukraine. The forecast developed by UNDP is based on different volumes of GDP reduction depending on the degree of household income reduction: scenario 1 - 7%; scenario 2 - 15%; scenario 3 - 20%; scenario 4 - 60% [18].

Under scenario 2, 6% of Ukrainians will live below the poverty level of $5.50 USD/day for 12 months. This level of poverty is 3 times higher than in the situation if Russian armed aggression did not occur, and 2 times higher compared to the consequences of the COVID-19 pandemic. Also, 54% of citizens would be at risk of falling into poverty, namely living below the $13 line USD/day.

Given the urgent need for a coordinated government policy in response to threats to sustainable development, it should be noted that Ukraine already has experience in the development and implementation of such a state program in the context of combating the socio-economic consequences of the COVID-19 pandemic. Thus, in 2020-2021, the Government adopted a number of measures to combat the social and economic consequences of the COVID-19 pandemic. The Government adopted a number of macro-level measures within the framework of fiscal policy, which are focused on the stabilization of the socio-economic situation, in particular:

- state expenditures were increased by 8% of GDP (up to UAH 300 billion);
- fund for financial support to vulnerable groups (pensioners, citizens who lost their jobs as a result of the COVID-19 pandemic) of UAH 200 billion was created;
- liberalization of the taxation system: penalties for tax law violations were abolished; a moratorium on tax audits was introduced; VAT and customs duties on imported medicines were abolished, etc.).

A separate critical area of the government’s attention during the crisis period was support for employment and health care. This emphasizes the complex nature of the socio-economic crisis and the variety of its consequences, which makes it urgent to take not only measures of a purely financial nature. In light of this, the Government took not only fiscal policy measures but also a broader set of measures, given the scale of the socio-economic crisis, the unpredictability of the
The above-mentioned set of government actions encompassed: support for social infrastructure; support for employment in small businesses; support for the agricultural sector, in particular farms; digitization of public services.

A particularly interesting experiment was the introduction of unconditional basic income (the so-called Helicopter Money), which was a one-step payment of non-refundable financial aid to all citizens of the country, regardless of their financial and property status. The instrument of unconditional basic income allows for an effective way to support households, to a greater or lesser extent facing financial complications due to the socio-economic crisis, as well as indirectly supporting Ukrainian businesses, facing a reduction in solvent demand during the crisis. We see the continuation of the initiative in the example of the digitalized "E-Support" program for the payment of a one-time non-refundable financial aid to internally displaced persons, citizens of Ukraine living and working in regions where hostilities are taking place, as well as citizens who lost their jobs as a result of war.

The government must be flexible and creative in its approaches to strategic regulation in light of the demands of the times. Thanks to digitalization, the Government is able to create and rapidly deploy social support tools, namely: card schemes to support citizens; cash transfers; wage subsidies; labor regulation.

Social policy measures act as stabilizers against the backdrop of the socio-economic crisis caused by Russian armed aggression. The role of the anti-crisis social policy of the state becomes especially relevant in the context of achieving the goals of sustainable development, where social equality is at the top of the agenda.

Another important aspect in the context of developing strategic state regulation in the context of sustainable development should be environmental protection. Strategic state regulation aimed at achieving the goals of sustainable development in the context of post-war reconstruction of Ukraine should be based on the principle of "A future without a carbon footprint," which provides for minimizing dependence on traditional energy sources, namely fossil fuels.

Furthermore, the result of strategic state regulation should be not only radical changes, yet also gradual improvements. Such an approach has been established while fighting the consequences of the COVID-19 pandemic. As Kuznyetsova highlights "updating the approaches of state policy to stimulate the modernization of the real sector based on ensuring a structural balance in the development of its industries for growth on an innovative basis, attracting and combining the efforts of all economic agents and sectors of the economy in the process of creating added value and equitably distributing income between them" [19]. Such an approach allows for equitable growth and fulfillment of sustainability goals.

To summarize, Russian armed aggression has led to a large-scale socioeconomic crisis. The achievement of sustainable development in Ukraine and its further prospects in the short and long term have been significantly threatened. The analysis has shown that the impact of armed aggression on the goals of sustainable development is manifold, and the factors influencing sustainable development against the background of armed aggression have both financial and non-financial characteristics. The current situation requires the Government to adopt an adequate set of anti-crisis measures. The key areas of focus for the complex of measures of the Government in the context of a large-scale socioeconomic crisis are, first of all, fiscal measures in combination with social support measures.

CONCLUSIONS

The issue of strategic state regulation against the background of armed aggression in the plane of development of the national economy in the coordinates of sustainable development is considered in a set of papers, namely, peculiarities of post-war national economic recovery (Arezki, 2018); the problem of the crisis of access to food during the war (Tandon, 2019); the problem of food availability and the state of food markets during the war (Caccavali, 2017); the problem of reforming sectors of the national economy in the post-war period (Almohamadi, 2021).

However, the problem of supporting the development of the national economy in the context of sustainable development goals against the background of the Russian armed aggression – one of the largest in the history of modern Europe – is insufficiently studied.

This paper supports the previous research results. More specifically, we found that Russian armed aggression significantly hindered progress in the achievement of sustainable development goals. Additionally, Russian armed aggression has threatened Ukrainian households and businesses on numerous fronts resulting in a complex socioeconomic crisis.

However, this paper argues that there is a lack of emphasis on the importance of a flexible approach in the development of a set of measures of strategic government regulation to ensure sustainable development. The key is the use of the tool of digitalization in the context of implementing support programs for citizens and businesses.
Limitations of this research are lack of data on Russian armed aggression which has significantly evolved and intensified in February 2022. Future prospects of this research are in the field of incorporating a larger set of exogenic and endogenic drivers affecting strategic state regulation against the background of Russian armed aggression in the plane of development of the national economy in the coordinates of sustainable development.

Conclusions. As a result of this study, we determined the specifics of strategic state regulation against the background of Russian armed aggression in the plane of development of the national economy in the coordinates of sustainable development. The specifics of strategic state regulation against the background of Russian armed aggression in the coordinates of sustainable development include both exogenic and endogenic drivers of financial and non-financial nature. Among them are global liquidity shortage, constrained debt financing, urgent need for financial interventions, and lack of productivity. The specifics of strategic state regulation against the background of Russian armed aggression in the coordinates of sustainable development under the current situation require the Government to adopt an adequate set of anti-crisis measures. The key areas of focus for the Government’s complex measures are fiscal tools in combination with social support measures supported by solutions based on digitalization.

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РОЗВИТОК НАЦІОНАЛЬНОЇ ЕКОНОМІКИ В КООРДИНАТАХ СТАЛОГО РОЗВИТКУ: ДО ПИТАННЯ СТРАТЕГІЧНОГО ДЕРЖАВНОГО РЕГУЛЮВАННЯ НА ТЛІ РОСІЙСЬКОЇ ЗБРЮЙНОЇ АГРЕСІЇ

Російська зброяня агресія спричинила глибоку соціально-економічну кризу та має масштабні непередбачувані наслідки для національної економіки. Одним із ключових негативних наслідків російської зброяної агресії є загроза для сталого розвитку національної економіки. Уражені всі аспекти сталого розвитку в Україні: економічний розвиток, захист довкілля, соціальна й гендерна рівність та інше. На тлі російської зброяної агресії постає нагальна потреба в збалансованому та обґрунтованому стратегічному державному регулюванні, що покликане забезпечити сталий розвиток в Україні в короткота- довгострокових аспектах. Метою статті є визначення особливостей стратегічного державного регулювання на тлі російської зброяної агресії в площині сталого розвитку національної економіки в координа- тах сталого розвитку. У статті розглянуто прогрес України у виконанні цілей сталого розвитку. Названо найбільш проблемні зони в розрізі цілей сталого розвитку, де ключовою причиною відставання є російська зброяня агресія. Здійснено огляд ситуації в світі в розрізі рівня конфліктності та виділено спільні риси в площних проблем сталого розвитку в країнах, що зазнали зброяної агресії. Наголошено на тому, що ускладнення в досягненні цілей сталого розвитку мають комплексну природу. Драйвери забезпечення сталого розвитку мають фінансовий, і нефінансовий характер. Розглянуто 4 ключові фактори, що утруднюють досягнення цілей сталого розвитку на сучасному етапі: 1) звуження ліквідності в світі; 2) ускладнення доступу до позикового фінансування; 3) потреба в термінових фі- нансових заходах; 4) потреба в рості продуктивності праці та зростанні виробничого потенціалу. Подано опис сценарію UNDP щодо розвитку наслідків російської зброяної агресії в площні бідності в Україні. Названо ключові зони фокусу для комплексу заходів Уряду в контексті масштабної соціально-економічної кризи. Наголошено на важливо- сті застосування скоординованої та обґрунтованої політики Уряду на тлі російської зброяної агресії. Окрему увагу приділено потребі використання гнучкого підходу при розробці комплексу заходів зі стратегічного державного ре- гулювання з метою забезпечення сталого розвитку. Наголошено на важливості застосування здобутків діджиталі- зації в контексті реалізації програм підтримки громадян та бізнесу.

Ключові слова: сталий розвиток, російська зброяна агресія, стратегічне державне регулювання, соціальна підтримка, підтримка бізнесу, діджиталізація

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