STRATEGIC PRIORITIES FOR THE DEVELOPMENT OF UKRAINE'S ECONOMY IN WARTIME CONDITIONS: A RESPONSE TO MODERN CHALLENGES

ABSTRACT

Russian aggression has caused unprecedented humanitarian and social losses in Ukraine and serious destruction of infrastructure on the territory of hostilities, disorganization of established industrial relations and critical supplies of raw materials, and partial loss of foreign sales markets and export potential. Therefore, today our country faces the task of transitioning to a war economy, which is one of the most important prerequisites for victory in this war.

The purpose of our article is to study the strategic priorities of the development of the economy of Ukraine in wartime conditions and study the answers to modern challenges. The object of research is the strategic priorities of the development of the economy of Ukraine in wartime conditions. The subject of research is the modern challenges that Ukraine faced in the context of the military conflict.

The study focused on examining the present economic situation in Ukraine and providing a rationale for the key approaches and measures required to restore the national economy during a state of martial law. The primary objectives of the economy under martial law were identified as supporting the armed forces and ensuring the smooth functioning of the civilian sectors. It was concluded that the formulation of economic policies during martial law necessitates ongoing adjustments to the economic management system in order to enhance its effectiveness. This can be achieved through continuous monitoring of the economic situation, which is crucial for making prompt management decisions in such challenging circumstances.

The main conclusion from the research is that Ukraine can restore its economy and achieve sustainable development during wartime by implementing strategic priorities for economic development.

Keywords: martial law, military economy, economic development, economic guidelines for Ukraine, strategic priorities, strategy

JEL Classification: C10, D69, D72, D92, E27, R10

INTRODUCTION

Russian aggression has caused unprecedented humanitarian and social losses in Ukraine and inflicted significant damage to the country's infrastructure in the conflict-affected areas. It has disrupted established industrial relations and critical supplies of raw materials, leading to a partial loss of foreign sales markets and export potential. Consequently, Ukraine is now faced with the imperative of transitioning to a war economy, which is crucial for achieving victory in the war.

In order to foster economic development during times of war, it is crucial for the state to establish a clear strategy. The success of this strategy relies on the consistency and systematic approach of the state's economic policy, as well as its focus on specific indicators of qualitative changes. The question of the strategy and tactics of rebuilding the domestic economy and its modernization is the question of the future of Ukraine, a strong European state.
The government should develop an effective economic development strategy based on a high-tech military economy with an emphasis on security and related technologies and dual-use items, science and innovation. In addition, a series of changes in domestic and foreign policy, and state policy priorities, which will become a condition for the development of the Ukrainian economy, should take place in parallel.

In this article, we will explore the strategic priorities for the development of Ukraine's economy during wartime conditions, as well as the research conducted to address contemporary challenges. In order to achieve our objective, we will analyze the current state of Ukraine's economy and provide a justification for the key approaches and measures required to restore the national economy during a state of martial law.

LITERATURE REVIEW

The war that began with the invasion of the Russian Federation in Ukraine in February 2022, in addition to a number of purely military-political, social and general economic problems, also revealed the problem of insufficient scientific and practical development of the principles and methods of organizing the wartime economy (Kniazieva, 2022). Ukraine was not ready for full-scale Russian aggression, in particular, due to disbelief in war. Thus, effective economic mobilization plans were not created; it was not possible to quickly transfer the economy to military rails; there was no audit of the ability of enterprises to produce military products, to repair equipment, therefore there are currently no specific instructions from the state for enterprises. In addition, the lack of a long-term economic strategy, etc., was indicated.

Among the number of sources, we have studied, we note the article by Kravchenko (2019), in which theoretical conclusions about the essence of the military economy and military finance and proposed directions for the development of the military economy are presented.

According to Kostoviat, Kurylina, & Havrylenko (2022), Kuznetsova, Azarenkova, & Olefir (2017) international support plays a crucial role in assisting Ukraine by financing the state budget deficit and replenishing gold and foreign exchange reserves. This support aims to maintain macroeconomic stability. In addition, Obikhod (2022) highlights the necessity for dynamic changes in the market economy, incorporating compromise approaches and considering external factors to enhance production efficiency. The executive power is responsible for implementing key tasks in the modern economy, such as finding and implementing new energy sources, addressing unemployment, and supporting the effective functioning of the National Bank of Ukraine. Levchynskyi (2022) emphasizes the significance of studying the main trends in the military economy and determining the key directions for its further development, as it greatly influences contemporary entrepreneurship in Ukraine.

According to Ostropolska (2021), structural reforms create a systemic basis for the growth of microeconomic efficiency, which leads to rapid economic growth. Sustainable growth, however, requires an appropriate development strategy and effective government policies aimed at strengthening market forces in the process of transformation. In this context, «it is not enough to address the «old problems» associated with the restructuring of the real economy and institutional reforms. It is also necessary to use the opportunities offered by the new stage of development of the world economy, called the smart economy».

«The Smart Economy is part of Industry 4.0. and Industry 5.0. influencing today's global production system. Its main elements are technologies and concepts of the Internet of Things, Big Data, «predictive analytics», cloud technologies for calculations, «machine education», machine interaction, the creation of neural networks and artificial intelligence, the development of robotics, 3D printers, augmented reality» (Ovcharova, 2022). The concept of a smart economy became the basis of Industry 7.0. Riabov & Riabova (2021) notes that «the post-industrial era brings forward new conditions for the prosperity of the economy of any country. Today it is a comprehensive diffusion of technology and innovation, digitalization, and dynamic strengthening of the role of creative and intellectual components of goods and services». Supporting the opinion of the previous authors, Vdovichen et.al. (2022) claim that «society understands the value of information but does not yet have necessary experience and laws in its use. The world economic model is being supplemented with a new sector -information regarding industries, services and agriculture. This sector is characterized by the use of labour and business skills of various production factors» (Vdovichen, Vidomenko, Tkachuk, Zhuzhukina & Lukianykhina, 2022).

Bushman (2021) highlights the importance of considering the global shift towards intellectual production in world economies. This transition necessitates the intensification of scientific and technical work and the expansion of scientific resources. It also acknowledges the global influence of information and intellectual production, communication technologies, the rise in international trade of intellectual services, and the increase in the international movement of investment capital. These factors play a significant role in shaping the modern economic landscape.
AIMS AND OBJECTIVES

The main purpose of the article is to examine the strategic priorities for the development of Ukraine's economy during wartime conditions and to explore the responses to contemporary challenges. To achieve this goal, the following tasks need to be addressed:

▪ investigate the current state of Ukraine's economy in the present circumstances;
▪ justify the key approaches and measures required to restore the national economy under the conditions of martial law.

METHODS

In the course of the research, the following methods were used:

▪ monographic method. This method was used to process specialized literary sources and analyse textual presentations of the specified problem. A total of 17 articles on the topic were developed, with the majority being from foreign scientists, while also including articles by Ukrainian researchers;
▪ induction and deduction. These methods were employed to determine the strategic priorities for the development of Ukraine's economy during wartime conditions. Inductive reasoning was used to derive general conclusions from specific observations, while deductive reasoning was applied to draw specific conclusions from general principles;
▪ graphical method. The graphical method was used to visually present the research results, facilitating a clear and concise representation of the findings.

RESULTS

Today, the Ukrainian economy has faced an unprecedented shock in its entire history. A large-scale military invasion by our northern neighbours has delivered a powerful blow to all sectors of our country's economic system. The main consequences of this invasion are grouped together in Figure 1.

![The main consequences of the armed conflict in Ukraine](Source: Levchynskyi, 2022)

At the moment, about half of the economy is working (Verkhovod, 2020). This applies primarily to those industries that provide the basic needs of Ukrainian citizens – heating, energy supply, basic medical services, as well as the production...
and sale of goods of daily demand in territories where hostilities are not taking place. Those productions that have the opportunity to sell their products within those regions where delivery and logistics are possible are also working.

Even export-oriented regions are partially working, in particular, mining and shipping of iron ore is carried out in Kryvyi Rih. This means that the economy, even during martial law, tends to return to using those opportunities that allow businesses to operate. Under these conditions, demand is somewhat limited, but due to this, such consequences as inflation and financial instability are absent stability (Kostovyat, Kurilyna & Gavrylenko, 2022).

Figure 2 shows the dynamics of the average daily production of steel, cast iron and rolled products.

It can be seen from the figure that at the beginning of the war, the production of steel, iron and rolled steel practically stopped. As of April 2023, the average daily production is slightly more than 10,000 tons, which is almost 6 times more than before the invasion.

In Ukraine, enterprises in many sectors of the economy are adapting to military needs. Factories began to produce «hedgehogs» for the army, the transport industry works to evacuate the population, and the market economy works to support the army and society by paying taxes to the state budget.

Now the key problem in Ukraine is that Russian aggression in the Black Sea effectively prevented the further export of the record grain harvest that Ukraine received in 2021. These grain stocks are quite large, the contracts are concluded, and this creates difficulties (Ivanov, 2019).

Note that the grain agreement was signed on July 22, 2022, but there were no shipments in July, i.e. there were no exports through deep-sea ports in the first month of the season. Last August, while the "grain corridor" was warming up, export rates were low. Only 1.7 million tons of agricultural products were shipped from the three ports, including less than 0.3 million tons of wheat. In the future, shipments of both agricultural products in general and wheat, in particular, intensified, amounting to 3.9 and 1.2 million tons, respectively, in September and 4.1 and 1.3 million tons in October (Figure 2). However, then the pace of exports through the "corridor" slowed down, because, from the end of October, representatives of the Russian side in the Joint Coordination Center (JCC) began to deliberately slow down the process of inspecting vessels, reducing the number of inspection teams and artificially increasing the time of inspections.

![Figure 2. Average daily production of steel, cast iron and rolled steel in 2020-2023. (Source: State Statistics Service of Ukraine)](image)

![Figure 3. Dynamics of exports through the "grain corridor". (Source: State Statistics Service of Ukraine)](image)
The metallurgical industry also suffered a significant blow, in particular, large metallurgical enterprises in Mariupol and Zaporizhzhia are not working. There are also certain problems with logistics because in addition to the actual closing of the ports, the load on the western border, on road and rail transport, through which the flows of refugees pass and at the same time the flow of goods from Western and Eastern Europe, is increasing. Because of this, about two-thirds of the country's annual exports of goods are at risk.

Logistical problems have also led to the disruption of supply chains for various industries, resulting in the loss of jobs and incomes of Ukrainian citizens. As a result, domestic demand decreased, which, in combination with a reduction in exports, leads to a sharp reduction in aggregate demand. Note that the war that came to our country at the beginning of 2022 led to a collapse of GDP by 30% as of the end of the year (Economic Truth. War economy: a shield for industry, 2022).

![Figure 4. Change in real GDP (in % compared to the corresponding quarter of the previous year). (Source: State Statistics Service of Ukraine)](image)

During wartime, the economy plays two main roles: supporting the military and ensuring the functioning of the home front. However, the stability of the Ukrainian economy and prospects for recovery largely depends on the speed and scale of prioritized restoration of critical infrastructure objects, social sphere, and housing stock (Kuznyetsova and Pogorelenko, 2018, 2021). This includes energy infrastructure, transportation systems, water supply and wastewater systems, as well as educational institutions and kindergartens. Adequate human, material, and financial resources are required for this purpose. It should be noted that a reliable energy supply, which is a critically important prerequisite for economic recovery and sustaining people's livelihoods, stands out in this context.

The main favourable factors for Ukraine's development remain as follows:

- strengthening the Armed Forces of Ukraine and the beginning of the liberation of Ukrainian territories, which will enhance the security environment and create incentives for people to return to their land (if the respective territories are suitable for habitation). There are hostilities in the country, losses are changing every day, and the final calculations will be made later. Now, if we talk about the calculations of the Ministry of Finance regarding budget losses, Ukraine's losses amount to about UAH 2 billion per day. If we talk about infrastructure losses, they previously amounted to USD 119 billion during the month of the war. That is, USD 4.25 billion per day. If we add to this military losses and increased military and social costs, support programs, and losses to the economy and businesses, then we are talking about USD 565 billion;

- continued provision of military and financial assistance to Ukraine by developed partner countries, which will strengthen the country's defence capabilities and provide a basis for sustainable recovery. Note that the largest foreign donor to the Ukrainian budget is the USA. Since the beginning of the russian aggression, the United States has provided the Ukrainian army with weapons in the amount of more than USD 20 billion. The total amount of international aid received by Ukraine's budget since February 24 has exceeded USD 28 billion. Among these funds, approximately UAH 12 billion are grants (Figure 5).
launched and implementing international programs and projects for the reconstruction of Ukraine’s economy (Marshall Plan) starting in the autumn of 2023, primarily focusing on the restoration of physical infrastructure in the liberated areas;

- improving the well-being of the population, increasing their resilience to hostile attacks, and fostering optimistic expectations, which will serve as additional factors and stimulants for productivity;

- the return of Ukrainians from abroad who were forced to leave the country earlier and their readiness to participate in production processes;

- Note that as of the end of May 2023, 6.03 million people emigrated from Ukraine. Most of them crossed the border with the European Union through border points in Poland, Slovakia, Hungary and Romania. The largest number of people left for Poland – more than 3 million. Among them are mostly women and children, writes Reuters. According to estimates by the Polish government, about half of the forced migrants may stay in the country for a long time. This will create problems for the housing market, schools and health care. Another almost 900,000 Ukrainians emigrated to Romania. Approximately 800,000 people went to Russia and over 500,000 to Hungary. Also, according to the latest report of the International Organization for Migration (IOM), more than 8 million Ukrainians were forced to move within the country;

- enhancing the cooperation between the National Bank of Ukraine and the government to support the real sector of the economy. Currently, in order to support the real sector of the economy in war conditions, the National Bank of Ukraine and the government are strengthening their cooperation. They cooperate to implement measures aimed at ensuring financial stability and supporting important sectors of the economy.

For example, entrepreneurs can get a loan for the restoration of production facilities destroyed during the war at 9% for up to five years in the amount of about UAH 60 million. Fulfilment of obligations under such loans is partially (about 80%) ensured by a state guarantee (Ministry of Finance of Ukraine, 2022, 2023). A new or updated enterprise cannot be located closer than 50 km to the battle line. Also, the specified program has been extended to exporters for the purpose of implementing foreign economic agreements. The National Bank of Ukraine implements a monetary policy aimed at ensuring the stability of the financial system and reducing inflationary pressures. They also take measures such as regulating interest rates, controlling bank liquidity and creating financial incentives to support the real sector of the economy. The Government of Ukraine, for its part, is developing economic strategies and programs aimed at ensuring support and development of the real sector. These are measures aimed at stimulating production, attracting investments, supporting enterprises in case of losses, as well as providing financial assistance for the restoration of damaged infrastructure. For example, the Cabinet of Ministers is currently implementing a large-scale program of assistance to Ukrainians who were forced to leave their homes due to the war. Through "Diya", the state pays every migrant in Ukraine a monthly allowance in the amount of 2,000 hryvnias for an adult and 3,000 hryvnias for a child.

In addition, the Government also supports business. Thus, through the "eRobota" grant programs, the Government provided financial support to processing enterprises in order to activate the work of the industry. Since the beginning of the current year, 61 processing enterprises have received state grants for development in the total amount of UAH 282 million. Under the government program, entrepreneurs can receive up to UAH 8 million. for business development, provided that they create 25 or more jobs. Thus, since January of this year, 61 enterprises have planned to create about 900 jobs.
development of processing is a strategic goal of the Government. Investments in this direction contribute to the production and export of larger volumes of finished products with a greater share of added value. In 2022, the Government issued almost UAH 1 billion. Such grants for the development of 178 businesses.

Among the internal inhibiting factors are the following (Kuznyetsova, Klishchuk, Lisnyak, Kerimov, & Babayev, 2020):

1. Restoration of the practice of politicization of economic decisions and strengthening of administrative and fiscal pressure on domestic entrepreneurship. This means that economic decisions can be made for political reasons, in particular in favor of the current government. For example, when the Government or political forces may be involved in setting prices, regulating the market, appointing company managers or allocating resources, without taking into account efficiency and competitiveness;

2. The inability to restore economic activity in the previously occupied territories and the lack of resources for the deployment of social infrastructure. This means that after the liberation of the occupied territories, there may be problems with the restoration of economic activity and the creation of social infrastructure that would stimulate the return of the population from abroad. The lack of resources can complicate the process of recovery and development of these areas;

3. Escalation of confrontation and contradictions between fiscal and monetary approaches of the state. This factor highlights the conflict between taxation and monetary policy strategies. Fiscal approaches aim to expand the tax base and increase revenue for the budget, while monetary approaches focus on adhering to expensive resource policies and promoting business development and stimulation. This contradiction can lead to tension between different branches of the government and result in unbalanced decisions regarding fiscal and monetary policies.

Among the external inhibiting factors (Kuznyetsova, Klishchuk, 2017), we note:

1. Geopolitical instability. Conflicts, wars or political tensions in the world can have a negative impact on a country's economy. Instability can lead to a decrease in foreign trade and investment, as well as an increase in business risk.

2. World economic crisis. The development of crisis situations in the global economy, such as a financial crisis or recession, can negatively affect the economic growth of a country. A decrease in global demand, an increase in unemployment and a decrease in external financial support may complicate the economic recovery of our country.

3. Changes in world prices for raw materials. Fluctuations in the prices of oil, metals and other raw materials can significantly affect the country's export earnings and foreign trade. A decrease in raw material prices can worsen the trade balance and affect economic growth.

4. Changes in foreign regulation and trade agreements. Changes in international trade agreements, customs regime or tariff barriers may also have an impact on Ukraine's foreign trade and economic activity. Negative changes in trade agreements or the introduction of new restrictions could lead to a reduction in exports and imports, which would affect economic growth.

In such conditions, the priority areas of modern state economic policy, in our opinion, should be:

1. Revival of the production potential of the economy and creation of jobs.

The creation of jobs will preserve the savings of the population and the labour potential of the economy. The state has a wide arsenal of policy tools capable of stimulating the creation of new jobs and generating a multiplier effect in the economy (Table 1).
Table 1. Instruments of state policy. (Source: Kravchenko, 2019)

<table>
<thead>
<tr>
<th>№</th>
<th>Tools</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>State investments in new jobs in priority activities</td>
</tr>
<tr>
<td>2</td>
<td>Public-private partnership, primarily in the field of infrastructure</td>
</tr>
<tr>
<td>3</td>
<td>Various forms of state aid to businesses for job creation</td>
</tr>
<tr>
<td>4</td>
<td>State guarantees for loans and compensation of loan interest rates</td>
</tr>
<tr>
<td>5</td>
<td>State order for the purchase of goods and services</td>
</tr>
<tr>
<td>6</td>
<td>Nationalization of a systemically important business that is threatened with bankruptcy</td>
</tr>
<tr>
<td>7</td>
<td>Stimulation of import substitution and localization of production</td>
</tr>
<tr>
<td>8</td>
<td>Stimulating the transfer of production to safe regions</td>
</tr>
<tr>
<td>9</td>
<td>Stimulation of production conversion</td>
</tr>
<tr>
<td>10</td>
<td>Solving problematic issues of logistics and transport infrastructure</td>
</tr>
<tr>
<td>11</td>
<td>Solving problematic energy supply issues</td>
</tr>
</tbody>
</table>


2.1. Development of military industry and production of dual-purpose goods. The demands of wartime leave no choice as to the priorities of industrial policy. So, if in January 2022 the state budget expenditures on defence amounted to UAH 5.8 billion, then already in May 2022 they increased to UAH 235.3 billion. (Figure 6). Spending limited foreign exchange resources on weapons or military aid from international partners will not last forever. The development of the domestic industrial complex and dual-purpose goods should become the main priority of industrial policy in the near future (Avdienko, 2022).

![Figure 6. State budget expenditures of Ukraine on defence from January 2022 to April 2022, billion UAH. (Source: State Statistics Service of Ukraine)"

2.2. Restoration and modernization of industrial facilities.

Large industrial enterprises not only offer a significant number of jobs but also generate demand for related services, which feeds the entrepreneurial initiative of small businesses in the adjacent territories.

It is worth noting that the war left millions of people without work. According to a new report by the International Labor Organization (ILO), about 4.8 million jobs have been lost since the beginning of russian aggression in Ukraine. The study estimates that if the fighting escalates, job losses will rise to 7 million. However, if they stop, a quick recovery is possible with the return of 3.4 million jobs, half of which were managed by larger industrial enterprises. A broad innovation process requires an appropriate state policy to stimulate innovation, and state venture funding.

2.3. Increasing the efficiency of using the natural resource potential of the economy involves such steps as the development of the agricultural sector, which before the war provided about 20 per cent of the country's gross domestic product.

Note that the amount of indirect losses in the agricultural sector as of November 2022 amounted to USD 34.25 billion. the USA, mainly due to a decrease in domestic prices due to export disruptions (USD 3.1 billion), taking into account winter
crop losses in 2023 (USD 3 billion), increasing losses due to a decrease in crop production in 2022 (USD 4.7 billion US dollars), etc.

This not only helps to change the structure of the economy and enhance technological development but also contributes to the formation of powerful production clusters in our country.

Such economic development will contribute to addressing the issue of unemployment as the creation of production clusters will lead to increased demand for labour. A large number of jobs will be available not only in the core industries but also in the related and ancillary sectors that support and serve the main clusters. This will provide more employment opportunities and reduce the level of unemployment.

As noted by Hutsul et. al. (2022) «high investment attractiveness of the industry is a key factor in enhancing its competitiveness, ensuring high and sustainable economic growth, thanks to a transparent mechanism of investment in the agricultural sector has a chance to begin sustainable development, which leads to innovation, which in turn provides a transforming process of modernization of technical, technological and organizational base of agricultural production».

Currently, there are several promising sectors of the economy in Ukraine, which, with the appropriate technological modernization, can have a significant economic effect. Among them, we can note:

▪ pharmaceutical industry and medical equipment production: The increasing demand for quality pharmaceuticals and medical equipment creates opportunities for the development of these sectors in Ukraine. Despite the fact that in 2022 the pharmaceutical market of Ukraine decreased by 42% in physical terms and by 23% in monetary terms, the share of domestic drugs in the pharmaceutical market increased to 72% in physical terms and 38% in monetary terms. There is potential for exporting the product;

▪ petrochemicals, which can become a driver of energy and economic growth.

After the war, Ukraine will need a significant amount of construction materials that cannot be met by imports. Therefore, it is already necessary to develop the domestic industry of building materials.

Until February 24, 2022, Ukrainian companies used domestic raw materials for the production of road, structural, construction, finishing and other materials. The restoration of their production depends to a lesser extent on imports. Construction waste from destroyed objects will also be used as additional raw materials.

The most difficult situation occurs with polymer materials such as polyethylene, polypropylene and polyvinyl chloride, which are usually imported for the production of pipes, cables, windows and other products. According to the State Statistics Service, in January 2023 alone, Ukraine imported polymer materials and plastics worth USD 179 million (exports amounted to USD 19 million). In 2022, these figures amounted to USD 2.47 billion (exports - by USD 424 million).

Before the full-scale invasion, a significant part of the import of polymeric materials was accounted for by Belarus and the Russian Federation. In 2021, more than 100,000 tons of polymers and plastic were imported from Russia, and another 20,000 tons from Belarus.

Modern technological trends and implemented pilot projects open opportunities for the implementation of commercially attractive projects for the production of hydrocarbons, methanol, fuels, polyethylene and polypropylene, and other various chemicals using biomass and waste, in accordance with the green course to abandon fossil carbon-containing raw materials.

We must take this into account as much as possible during the reconstruction of our petrochemical and chemical production. And one of the priority tasks will be the implementation of the waste sorting process as raw material for further processing and production. There is a lot of work ahead.

2.4. Institutional reforms in the public administration system.

Institutional maturity is an important component of a successful market economy. The rule of law, minimization of corruption, and a strong democracy expand the possibilities of attracting large-scale private domestic and foreign investment. Therefore, they should be continued. However, it is worth understanding that their importance in a war-weakened economy is secondary to direct state incentives.

3. Macroeconomic stabilization measures.

According to the results of 4 months of 2023, the total balance of payments of Ukraine was brought to a surplus of USD 5.3 billion. However, this indicator does not reflect the actual state of affairs due to the influx of large volumes of non-market foreign aid in the form of grants and soft loans from the Government of Ukraine.
Without taking it into account, the total balance of payments forms a deficit of USD 8.9 billion, which is about 22% of GDP. The deficit is generated both on the current account (-6.2 billion USD) and on the financial account (-2.7 billion USD). If the trends of the first 4 months of 2023 are extrapolated to the entire current year, the annual deficit will amount to USD 27 billion.

According to the IMF forecast, the gap in the balance of payments in 2023 is expected to be much larger - USD 40.8 billion. Last year, a similar indicator of the deficit amounted to USD 35.4 billion. (Table 2).

### Table 2. Key items of the Balance of Payments of Ukraine, USD billion (excluding international aid). Note: *- including the Capital Transactions Account and Errors and Omissions. (Source: State Statistics Service of Ukraine)

<table>
<thead>
<tr>
<th>Articles of the balance of payments</th>
<th>2019</th>
<th>2020</th>
<th>2021</th>
<th>2022</th>
<th>2023 (4 months)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Current account balance (without grant aid)</td>
<td>-4.9</td>
<td>4.3</td>
<td>-4.8</td>
<td>-9.8</td>
<td>-6.2</td>
</tr>
<tr>
<td>Current account balance* (without grant aid)</td>
<td>9.1</td>
<td>-4.8</td>
<td>2.8</td>
<td>-25.7</td>
<td>-2.7</td>
</tr>
<tr>
<td>Consolidated balance of payments (without international aid and IMF funds) (PB gap)</td>
<td>4.2</td>
<td>-0.5</td>
<td>2.0</td>
<td>-35.4</td>
<td>-8.9</td>
</tr>
<tr>
<td>International aid and IMF loans</td>
<td>0.2</td>
<td>3.5</td>
<td>4.5</td>
<td>33.2</td>
<td>16.1</td>
</tr>
<tr>
<td>Change in foreign exchange reserves of the country</td>
<td>4.4</td>
<td>3.0</td>
<td>2.5</td>
<td>-2.3</td>
<td>7.1</td>
</tr>
</tbody>
</table>

The balance of payments deficit in 2023 was covered entirely by international aid funds (while in 2022, 6.5% of this deficit was covered by the reduction of the NBU's currency reserves).

In total, in January-April of this year, Ukraine received 16.1 billion dollars. official international aid (including USD 1.9 billion in net financing from the IMF, USD 8.6 billion in net loans from other official creditors, and USD 5.6 billion in grants).

The surplus of the received financing replenished the country's currency reserves by USD 7.1 billion As of May 1, 2023; the country's foreign exchange reserves reached USD 36 billion. or 4.6 months of future imports (an increase of 26% compared to the beginning of the year).

Without foreign aid, the country's foreign exchange reserves would be completely exhausted as early as November 2022.

Unfortunately, in the structure of international aid received in 2023, grants began to occupy a much smaller share (35% compared to 54% last year). This potentially creates future risks for the balance of payments, as the received international aid is mostly used to compensate for losses, rather than to increase the productivity of the economy.

In addition to international aid, other key channels of currency inflow into the country were:

- wages of labour migrants: +3.9 billion USD;
- remittances and transfers to the non-state sector: +3.1 billion USD.

The main channels of currency outflow from the country:

- negative trade balance: -11.8 billion USD;
- purchase of foreign currency (currency outside banks): -4.2 billion USD;
- payment of interest and dividends on foreign debt and investments: -1.1 billion USD.
- purchase of foreign financial assets by banks: -1.7 billion USD.

Maintaining restrictions on the withdrawal of capital from the country also had a positive effect on the balance of payments.

Among the main reasons for the deterioration of the balance of payments, we note the following:

- stoppage of enterprises due to the war;
- narrowing of sales markets;
- closure of foreign capital markets for Ukrainian issuers;
- restriction of maritime trade routes of export;
- increase in the economy's need for the import of civilian and military goods;
- delays in foreign currency earnings of exporters;
- increase in the amount of foreign exchange by refugees from Ukraine;
- other channels of withdrawal of foreign currency from the state (for example, banks increased their net foreign assets by USD 3.5 billion in June-July 2022, including by USD 1.8 billion on the eve of the devaluation of the hryvnia).
We also note that measures to strengthen the balance of payments can be divided into 2 categories:

1. Administrative measures. Thus, administrative measures may include the following restrictions: setting maximum limits on capital transfers abroad, delaying or blocking capital transactions; establishment of quotas or limits for currency exchange, the obligation to obtain permits for operations with foreign currency; import restrictions: introduction of tariffs, quotas or licenses for imported goods, restrictions on the payment of foreign currency for import operations.

So, for example, as early as March 21, 2022, the NBU made a number of changes that, in particular, concern the following issues:

a) cash withdrawal of foreign currency in Ukraine and abroad:
   - the daily limit for cash withdrawals in Ukraine from foreign currency accounts has been increased from UAH 30,000 to UAH 100,000 (equivalent). At the same time, it was clarified that this limit also applies to foreign currency withdrawals from foreign currency accounts opened in Ukrainian banks.
   - the daily limit of UAH 100,000 for withdrawals in Ukraine from accounts in the national currency remains in effect. On the other hand, foreign currency withdrawals from hryvnia accounts are limited to a limit of 100,000 hryvnias per month. The relevant clarifications are intended to prevent the withdrawal of capital abroad in significant volumes;

b) restrictions on quasi-cash operations and P2P transfers in order to prevent the withdrawal of capital abroad:

The National Bank has set a general limit of UAH 100,000 (equivalent) per month:
   - transfer of funds to the accounts of natural persons abroad using the payment card details of the payer and recipient (P2P transfers);
   - carrying out operations using payment cards for the purchase of assets that are directly converted (exchanged) for cash and belong to quasi-cash operations. Such operations include replenishment of electronic wallets, brokerage or forex accounts, payment of traveller's checks, purchase of virtual assets, etc.

2. Structural measures, which include tools for stimulating processes of import substitution and localization of production, as well as state initiatives for the development of logistics and export transport routes, etc. Such measures make it possible to strengthen the fundamental resilience of the economy to currency shocks and have a medium-term effect. Here we will note various state programs and support for small, medium and large businesses, farmers, etc.

Russian invasion affected the economic situation in Ukraine, including the inflation rate. In 2022, inflation reached 26.6% (Table 3), which indicates a significant increase in the general level of prices for goods and services.

According to statistics, this level almost corresponds to the average annual inflation rate in 9 European countries most affected by World War II (20.1%). At the same time, the rate of inflation in Ukraine contrasts with the average annual inflation during the war in Croatia in 1991-1995 (471.7%), in Iraq in 1991 (181%), and in Italy in 1941-1945 (77.3%).

Fairly moderate inflation in 2022 in Ukraine, with large-scale destruction of the production base and infrastructure, was due to the fact that the western border of Ukraine remained open, and neighbouring countries were not engulfed in war. In this way, a significant part of consumer demand in Ukraine was met at the expense of imports. Imports compensated for some of the lost domestic supply (while real GDP fell by 29.2%, dollar imports decreased by only 4%), and large-scale foreign aid helped to maintain the purchasing power of the population relative to imports.

| Table 3. Main macroeconomic indicators 2019-2022. (Source: State Statistics Service of Ukraine) |
|---------------------------------|-----------------|-----------------|-----------------|-----------------|
| Year                           | 2019            | 2020            | 2021            | 2022            |
| Inflation (% end of year)      | 4.1             | 5.0             | 10              | 26.6            |
| Exchange rate (UAH/USD average for the year) | 25.8           | 27              | 27.3            | 31.8            |
| Budget deficit (% of GDP)      | -2.1            | -5.9            | -3.9            | -20             |
| Current account (% of GDP)     | -2.7            | 3.3             | -1.6            | 2.7             |
| International reserves (USD billion as of December 31) | 25.3           | 29.1            | 30.9            | 28.5            |

It is also worth noting that since the beginning of the military aggression, the NBU fixed the exchange rate of the hryvnia and introduced a set of measures to limit the outflow of capital. Later in July, the exchange rate was fixed at a new level of UAH 36.6. for a dollar. Such measures made it possible to stabilize the market rate, stopped the outflow of deposits from the banking system, and reduced the demand for foreign currency (Figure 7).
Fixation of the exchange rate of the hryvnia played the main role in maintaining the controllability of inflationary processes. Despite the adjustment of the official hryvnia exchange rate in July 2022, its fixation due to currency interventions and measures to control the movement of capital and currency transactions significantly limited the growth of the cost of goods and services, in particular, due to the cost of imported components. The significant impact of this factor was manifested by curbing inflationary and exchange rate expectations of citizens and businesses and also reducing the risk of financial destabilization.

It is obvious that the conditions for the development of the domestic economy in 2023 will be determined by a complex combination of various positive and negative internal and external factors, which will be intensified by international confrontations of world political and economic leaders, as well as a high risk of the continuation of the war. The fall of Ukraine's economy in 2022 as a result of a full-scale war was the deepest in the entire history of Ukraine. However, it was less than expected at the beginning of the invasion, thanks to the high adaptability of business and DH, as well as the resilience of the energy system. In view of this and the increase in the volume of expected international aid, the National Bank improved the GDP growth forecast in 2023 - from a marginal 0.3% to 2.0%.

Also, in 2024 and 2025, economic growth is expected to accelerate to 4-6%, primarily thanks to the assumption in the forecast about the reduction of security risks from the beginning of next year and the still soft fiscal policy. Inflation will continue to decline - to 14.8% by the end of 2023, 9.6% by the end of 2024, and 6% by 2025. This will be facilitated by the cheapening of energy sources on world markets, restrained domestic demand, as well as the NBU's monetary policy measures.

The authors believe that in the post-war period, it is necessary to form such an economic strategy for the reconstruction of the state, which, based on the conversion and transfer of technologies, would be able to ensure not only a quick and effective revival of the state's economy but also its further sustainable development. Finally, let's emphasize that our country has significant potential for improving the economic situation. There is every reason to believe that the peaceful reconstruction of the state will be successful, including thanks to the help of partner countries (Shyrokyi, & Havrylenko, 2023).

**DISCUSSION**

Wartime conditions can bring significant changes to the country's economic situation and require a rethinking of strategic development priorities. Since the war is still ongoing and may have unpredictable consequences, determining strategic priorities can be a difficult task. However, within the framework of the discussion, it is possible to consider some possible directions of development, taking into account the current situation:

1. **Ensuring safety and recovery.** The conditions of the military conflict necessitate the prioritization of the country's security and the restoration of the affected regions and infrastructure. This may include the restoration of electricity, transport, communications, water supply and other vital systems.
2. **Mobilization of resources.** In wartime, it may be necessary to reallocate resources to support military operations and national security needs. This may include increased production of equipment, weapons and materials for military needs.
3. Diversification of the economy. Considering the risks of war, it is possible to consider a strategy of diversification of the economy, in particular, the development of industries independent of foreign markets, the expansion of the export portfolio, and the stimulation of domestic consumption.

4. Attracting investments and international cooperation. Investment attraction and support from international partners can be an important direction. This may include leveraging financial assistance, technology and economic support for economic recovery and development.

5. Social events. An important component of wartime is the provision of social protection for the population, especially the affected groups. This may include measures to ensure social protection, health care and rehabilitation, support for internally displaced persons and reintegration of combatants.

It should be noted that determining strategic priorities for the development of Ukraine's economy in wartime conditions is a difficult task and requires a comprehensive analysis and discussion of the parties involved.

CONCLUSIONS

The war in Ukraine is still going on, but already now it is necessary to look for effective directions for the formation of a restored state.

In our opinion, the strategic guidelines for the recovery of the domestic economy in the post-war period should be:

1. Restoring the pre-war GDP level. This is an important indicator that reflects the recovery of economic activity in a country after a conflict. Restoring the GDP can involve infrastructure reconstruction, revitalizing production capacities, and stimulating consumption.

2. Updating the economic structure. Transitioning to a more rational and competitive economic structure may include diversifying industries, developing innovative sectors, attracting foreign investments, and supporting small and medium-sized enterprises.

3. Achieving a 50% share of the manufacturing industry by 2030. The growth of the manufacturing industry can contribute to creating new job opportunities, increasing exports, and reducing dependency on imports.

4. Increasing the share of domestically produced goods in government procurement. This can promote domestic production and support local manufacturers.

5. Developing the technological sector of the economy by supporting startups and innovative projects. This is an important step towards enhancing the country's competitiveness and attracting investments in high-tech industries.

6. Facilitating the opening of new markets for Ukrainian goods and services, including attracting foreign investors. Expanding international trade and attracting foreign investments can create new opportunities for economic growth. Developing effective mechanisms to support exports and promote Ukrainian products in global markets is an important task.

7. Improving the efficiency of public administration, including tax and customs system reforms, reducing bureaucratic barriers, and supporting businesses. Enhancing public administration is a necessary condition for creating a favourable business environment. Simplifying tax procedures, reducing administrative barriers, and supporting entrepreneurship can contribute to business development and investment attraction.

8. Developing infrastructure and technologies to support a smart economy. Investments in infrastructure development, such as transportation networks, energy systems, and digital technologies, can enhance the country's competitiveness and foster the growth of innovative sectors.

Once again, it is worth emphasizing that Ukraine has the potential to improve its economic dynamics. Today, there are reasons to expect that the peaceful recovery of the country will be successful, including with the help of partner countries. Rational institutional changes will enable the full realization of this potential.

A perspective for further research in this direction is the exploration of new vectors of post-war development in Ukraine.

ADDITIONAL INFORMATION

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СТРАТЕГІЧНІ ПРІОРИТЕТИ РОЗВИТКУ ЕКОНОМІКИ УКРАЇНИ В УМОВАХ ВОЄННОГО ЧАСУ: ВІДПОВІДь НА СУЧАСНІ ВИКЛИКИ

Російська агресія спричинила безпрецедентні гуманітарні та соціальні втрати в Україні, серйозне руйнування інфраструктури на території бойових дій, дезорганізацію налагоджених виробничих зв'язків та критичних поставок сировини, часткову втрату зовнішніх ринків збуту й експортного потенціалу. Тому сьогодні перед нашою державою стоїть завдання переходу до воєнної економіки, що є однією з найважливіших передумов перемоги в цій війні.

Метою роботи є дослідження стратегічних пріоритетів розвитку економіки України в умовах воєнного часу та вивчення відповідей на сучасні виклики. Об'єктом дослідження є стратегічні пріоритети розвитку економіки України в умовах воєнного часу.

У результаті проведеного дослідження: вивчено сучасний стан економіки України та обґрунтовано основні шляхи відновлення й заходи з відновлення національної економіки в умовах воєнного стану; визначено, що основними завданнями економіки воєнного стану є допомога армії та забезпечення функціонування тилю; визначено, що формування стратегічних пріоритетів розвитку економіки України в умовах воєнного часу.
мування економічної політики в умовах воєнного стану потребує постійного коригування системи управління еконо-номікою з метою покращення її стану шляхом моніторингу економічної ситуації, що вкрай необхідно для ухвалення нагальних управлінських рішень в умовах воєнного стану.

Основним висновком із проведеного дослідження є підтвердження того, що саме завдяки реалізації стратегічних пріоритетів розвитку економіки в умовах воєнного часу Україна зможе відновити свою економіку та забезпечити сталий розвиток.

Ключові слова: воєнний стан, військова економіка, економічний розвиток, економічні орієнтири для України, стратегічні пріоритети, стратегія

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