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R. Bacho,

*Doctor of Economic Sciences, Professor, Head of the Department of
Accounting and Auditing,*

Ferenc Rakoczi II Transcarpathian Hungarian University

ORCID ID: <https://orcid.org/0000-0002-5957-7571>

K. Sochka,

*PhD in Economics, Associate Professor, Associate Professor of the
Department of Accounting and Auditing,*

Ferenc Rakoczi II Transcarpathian Hungarian University

ORCID ID: <https://orcid.org/0000-0002-6247-221X>

O. Perchi,

Senior Lecturer of the Department of Accounting and Auditing,

Ferenc Rakoczi II Transcarpathian Hungarian University

ORCID ID: <https://orcid.org/0000-0003-4514-721X>

**FISCAL DECENTRALIZATION IN UKRAINE: EVOLUTION,
INSTITUTIONAL DEVELOPMENT AND WARTIME CHALLENGES**

Р. Й. Бачо,

*д. е. н, професор, завідувач кафедри обліку і аудиту,
Закарпатський угорський університет імені Ференца Ракоці II*

К. А. Сочка,

*к.е.н., доцент, доцент кафедри обліку і аудиту,
Закарпатський угорський університет імені Ференца Ракоці II*

О. Ф. Перчі,

*старший викладач кафедри обліку і аудиту,
Закарпатський угорський університет імені Ференца Ракоці II*

ФІНАНСОВА ДЕЦЕНТРАЛІЗАЦІЯ В УКРАЇНІ: ЕВОЛЮЦІЯ, ІНСТИТУЦІЙНИЙ РОЗВИТОК ТА ВИКЛИКИ ВОЄННОГО ЧАСУ

The article examines the development of fiscal decentralization in Ukraine and the functioning of local public finance under martial law. The relevance of this research is determined by the growing role of local finances in ensuring the stable social and economic development of communities, the need to adapt the budgetary system to wartime challenges, and the importance of creating financial preconditions for post-war recovery. The article aims to analyse the stages in the development of local public finances in Ukraine, taking into account institutional, regulatory and administrative-territorial changes, as well as to assess their adaptation to wartime conditions in terms of the formation of local revenue and expenditure policies. The research employs both general scientific and specialised methods of economic analysis, including the systemic approach, historical and logical analysis, statistical and comparative methods, as well as methods of generalisation and scientific abstraction. An author's periodisation of fiscal decentralization in Ukraine is proposed, which makes it possible to distinguish four main stages in its evolution.

The analysis indicates that the implementation of fiscal decentralization has created institutional conditions for strengthening the financial capacity of

territorial communities and has contributed to the relative resilience of local budgets to external shocks. During the analysed period, the nominal revenues of local budgets increased by 29.5% (from UAH 580.7 billion in 2021 to UAH 751.9 billion in 2025), indicating a gradual recovery of economic activity and the adaptation of the budget system to wartime conditions.

At the same time, martial law has led to changes in local expenditure policies, reflected in shifts in expenditure structures, increased funding for security-related needs, and partial recentralisation of financial resources. Despite wartime conditions, local authorities continue to demonstrate the ability to mobilise financial resources effectively, meet budget commitments and maintain the stable provision of social services.

Further research should focus on improving mechanisms aimed at strengthening the budgetary resilience of territorial communities and developing effective models for financing their post-war recovery.

У дослідженні проаналізовано розвиток фінансової децентралізації в Україні та особливості функціонування системи місцевих фінансів в умовах воєнного стану. Актуальність теми зумовлена важливим значенням місцевих фінансів у забезпеченні стабільного соціально-економічного розвитку громад, необхідністю адаптації бюджетної системи до воєнних викликів та формування фінансових передумов для забезпечення подальшого післявоєнного відновлення. Метою статті є аналіз етапів розвитку місцевих фінансів в Україні з урахуванням інституційних, нормативно-правових та адміністративно-територіальних змін, а також оцінка особливостей їх адаптації до умов воєнного часу у контексті формування їх дохідної та видаткової політики. У дослідженні використано загальнонаукові та спеціальні методи економічного аналізу, зокрема, системний підхід, історико-логічний, статистичний та порівняльний методи аналізу, а також методи узагальнення і наукової абстракції. Запропоновано авторську

періодизацію розвитку процесів фінансової децентралізації в Україні, що дозволило виділити чотири основні етапи її еволюції.

Проведений аналіз показує, що реалізація фінансової децентралізації сформувала інституційні передумови для підвищення фінансової спроможності територіальних громад та забезпечила відносну стійкість місцевих бюджетів до зовнішніх викликів. За період аналізу номінальний обсяг доходів місцевих бюджетів збільшився на 29,5% (від 580,7 млрд грн. у 2021 р. до 751,9 млрд грн. у 2025 р.), що є свідченням поступового відновлення економічної активності та адаптації бюджетної системи до умов воєнного стану.

Одночасно воєнний стан зумовив трансформацію видаткової політики місцевих бюджетів, що проявляється у зміні структури їх видатків, посиленні фінансування безпекових напрямів та частковій централізації фінансових ресурсів. Навіть в умовах воєнного стану органи місцевої влади забезпечують ефективну мобілізацію фінансових ресурсів, виконання бюджетних зобов'язань та підтримку стабільного надання соціальних послуг.

Подальші дослідження доцільно спрямувати на удосконалення механізмів підвищення бюджетної стійкості територіальних громад та розробку ефективних моделей фінансового забезпечення їх післявоєнного відновлення.

Keywords: *fiscal decentralization; local budgets; local budget revenues; local budget expenditures; intergovernmental fiscal relations; local self-government authorities; budget policy.*

Ключові слова: *фінансова децентралізація, місцеві бюджети, доходи місцевих бюджетів, видатки місцевих бюджетів, міжбюджетні відносини, органи місцевого самоврядування, бюджетна політика*

Problem Statement and Its Connection with Important Scientific and Practical Tasks. The capacity of local self-government to ensure the timely and effective provision of essential social and economic services for communities has become particularly significant under the conditions of prolonged military actions. In this context, fiscal decentralization functions not only as an institutional component of the public finance system but also as an important strategic element for maintaining the stable functioning of the national financial system and strengthening the adaptability of regions and local communities to contemporary challenges. Large-scale destruction of infrastructure, intensive internal migration processes, business relocation, changes in the spatial structure of economic activity, and the growing social needs of the population have substantially transformed the structure of local budgetary needs and the availability of financial resources. At the same time, since 2022 most local self-government bodies, in addition to performing their core functional responsibilities, have faced additional financial and material burdens related to the arrangement of shelters, restoration of damaged infrastructure, reconstruction of destroyed housing, support for internally displaced persons, assistance to territorial defence units, and the maintenance of critical infrastructure. In these circumstances, the financial capacity of local self-government becomes a key factor in maintaining the socio-economic stability of communities, ensuring the uninterrupted provision of essential public services, responding promptly to emerging challenges, and gradually forming the financial prerequisites for post-war recovery.

The outlined issues are closely linked to the study of the transformation of intergovernmental fiscal relations under current conditions, the evolution of the fiscal decentralization model, the formation of new mechanisms for ensuring the budgetary sustainability of territorial communities, and the adaptation of the local public finance system to the realities of a wartime economy. At the same time, the issue of periodising the development of fiscal decentralization in Ukraine remains relevant, as does the assessment of its outcomes in the pre-war period and the

analysis of adaptive changes in the functioning of local budgets in response to wartime challenges.

The methodological bases of the research includes both general scientific and specialised methods of economic analysis. The research employs systemic, statistical, and comparative analysis, as well as historical and logical methods, methods of generalisation, and scientific abstraction.

Analysis of Recent Research and Publications Related to the Problem and Identification of Unresolved Aspects of the Issue Addressed in the Article.

The practical experience of European Union countries in successfully implementing decentralisation reforms demonstrates that fiscal decentralisation is a gradual and long-term process that combines institutional, fiscal, and administrative transformations. The initial stage was characterised by the regulatory consolidation of financial guarantees for local self-government, particularly through the implementation of the provisions of the European Charter of Local Self-Government [1], which established the principle that financial resources should correspond to the scope of powers transferred to local authorities.

The next stage was associated with the deepening of regionalisation and the formation of a model of multilevel governance within the framework of the EU cohesion policy, which envisaged the active involvement of subnational levels in the implementation of development programmes [2; 3]. During the 1990s and early 2000s, many countries expanded the own-source revenue base of local budgets, improved systems of intergovernmental equalisation, and enhanced the transparency of transfer mechanisms [4].

Following the global financial crisis of 2008–2009, policy priorities shifted towards strengthening the fiscal sustainability of subnational budgets through the introduction of fiscal and debt constraints [5; 6]. At the current stage, the evolution of fiscal decentralisation in EU countries is associated with the search for opportunities to strengthen the investment capacity of territories, adapt intergovernmental fiscal systems to numerous internal and external challenges, and maintain a balance between financial autonomy and macroeconomic stability of

the state [7]. Thus, the European experience demonstrates that effective fiscal decentralisation requires a balanced combination of local autonomy in revenue generation with effective and transparent equalisation mechanisms, clear rules of budgetary discipline, and proper oversight of their implementation.

Most recent domestic studies on fiscal decentralisation processes focus on three main research areas: the institutional and theoretical dimension (the formation of preconditions and indicators of fiscal autonomy of local communities); the budgetary and managerial dimension (the adaptation of the budgetary process and instruments for managing local public finances to current challenges); and the spatial dimension, which is associated with the need to reduce disparities in the revenue base of frontline and rear regions.

In the author's previous research [8], a comprehensive analysis was conducted on the dynamics of revenues and expenditures of the state and local budgets of Ukraine during 2010–2020, as well as of the transformation of the system of intergovernmental transfers in the context of the initiated fiscal decentralisation reform. The results showed that the continued concentration of financial resources at the central government level even after the formal launch of the reform, limited the real financial autonomy of local self-government. At the same time, a positive trend was identified in the gradual increase in the share of own tax revenues of local budgets as an indicator of the strengthening of their financial base.

In a subsequent study by the authors [9], attention was focused on assessing the medium-term outcomes of the reform over a broader time horizon (2014–2023), taking into account administrative-territorial changes and the impact of military actions. The authors substantiated the strengthening of the financial capacity of communities during the period 2015–2021, which is confirmed by the increasing share of local budget revenues within the consolidated budget and the growing role of tax revenues, accompanied by a gradual reduction in dependence on intergovernmental transfers. At the same time, the full-scale war led to the

recentralisation of resources, changes in the proportions of tax revenue distribution, and an increased fiscal burden on local budgets.

In the publication by Skyba and Ochkas [10], the transformation of budgetary policy and the budget process under conditions of the full-scale war is examined. The authors identify the main challenges facing the functioning of the budget system, including the underperformance of customs revenues, problems related to the functioning of the electronic VAT administration system, the need for a critical reassessment of tax and customs privileges, and the growing dependence on international financial assistance. At the same time, the importance of medium-term budget planning and the programme-based method is emphasised as key instruments for improving the efficiency of public budget management.

An analysis of the transformation of the revenue base of local budgets under the influence of the administrative-territorial reform and wartime challenges is presented in the study by Yushko [11], who notes that fiscal and tax transformations have an uneven impact on different groups of local budgets. Strengthening the real financial autonomy of communities therefore requires improving the mechanisms of resource allocation and enhancing the stability of their revenue base.

Issues related to the transformation of local budget expenditure policy during wartime are examined by Vozniak and Koval in their study [12] where the authors emphasise the growing interregional differentiation of the fiscal capacity of territories, the reduction of development expenditures, and the decrease or suspension of a number of transfers (with the exception of basic and critical ones). These trends create long-term risks for the restoration of infrastructure and the socio-economic foundations of local communities.

The generalisation of the research findings indicates that the fiscal decentralisation reform has overall confirmed its effectiveness even under crisis conditions, ensuring a relative level of financial resilience for most non-frontline communities. At the same time, the authors largely agree that during wartime budgetary policy has acquired a distinctly anti-crisis and mobilisation-oriented

character. This is reflected in the shift of its priorities towards defence and security expenditures, the reduction of capital and investment programmes, and the necessity to optimise the use of budgetary resources.

Despite the considerable number of research studies devoted to this issue, the evolution of fiscal decentralisation in Ukraine in the context of wartime challenges still requires further generalisation and systematisation.

Formulation of the goals of the article (setting the task). The purpose of this article is to analyse the evolution of fiscal decentralisation in Ukraine in the context of institutional, regulatory, and administrative-territorial transformations, as well as to examine the adaptation of the local public finance system to wartime challenges. To achieve this goal, the article proposes an author's periodisation of the development of fiscal decentralisation, assesses the transformation of the revenue base and expenditures of local budgets during the period 2021–2025, and identifies the main trends in the functioning of local public finances under conditions of military conflict.

Presentation of the Main Research Findings with a Full Substantiation of the Scientific Results. Given the long-term and multifaceted nature of fiscal decentralisation in Ukraine, it is useful to analyse this process in a structured way through the stages and the logic of transformations of the budgetary system. As the reform simultaneously involved changes in budgetary, tax, and administrative-territorial regulation, and was influenced by both crisis and wartime factors, the identification of key periods of its implementation allows for a more comprehensive evaluation of the results of the redistribution of powers and financial resources between different levels of government. Therefore, taking into account the prolonged and complex nature of fiscal decentralisation in Ukraine, it is useful to distinguish several stages that are of fundamental importance from the perspective of the formation and strengthening of financial resources of local governments. Unlike earlier studies that primarily focus on the institutional aspects of decentralisation, the proposed periodisation integrates institutional, fiscal, and wartime factors affecting the development of local public finance.

Stage I (2014–2015): Establishing the Regulatory and Institutional Framework for Fiscal Decentralisation. This stage was characterised by the development of the legislative and methodological foundations for implementing the reform. Important steps included the introduction of comprehensive amendments to the Budget Code and the Tax Code of Ukraine, the introduction of a new model of horizontal equalisation of fiscal capacity of local governments, the expansion of the revenue base of local budgets, and the adoption of the Law of Ukraine “On Voluntary Amalgamation of Territorial Communities” [13].

The reform of budgetary relations [14] envisaged the streamlining of the list of revenues and expenditures of the state and local budgets, the establishment of a new procedure for the horizontal equalisation of fiscal capacity of local budgets, and the introduction of specific types of subventions. Since 2015, in order to strengthen the revenue base of local budgets, a portion of the excise tax from the retail sale of excisable goods by business entities, as well as from fuel produced in Ukraine and imported into the customs territory of Ukraine, has been allocated to local budgets.

Amendments clarifying the list of national and local taxes and fees, which directly affect the financial capacity of local budgets, were introduced to the Tax Code of Ukraine [15].

Another important outcome of the reform of intergovernmental fiscal relations in Ukraine was the clarification of expenditure responsibilities and the assignment of specific expenditures to particular levels of the budgetary system [16, Art. 86, 87, 89–91]. At the same time as reforms in the budgetary and tax spheres were being implemented, the process of voluntary amalgamation of territorial communities was launched in Ukraine in 2015 [13], which was reflected in changes in the number of local budgets.

Thus, it was during this period that the institutional preconditions for the financial autonomy of communities were established and incentives were created for the formation of capable territorial units.

Stage II (2016–2019): Implementation of Budgetary and Tax Reforms and the Institutional Consolidation of Capable Communities. At this stage, legislative changes were actively implemented in the practice of the budgetary process, accompanied by the formation of a network of amalgamated territorial communities and the expansion of their direct interaction with the state budget. An increase in the share of own revenues of local budgets was observed, along with a strengthening of the role of tax revenues and a gradual reduction in dependence on intergovernmental transfers. This period can therefore be characterised as a phase of successful institutional consolidation of fiscal decentralisation and the development of practical experience for the majority of amalgamated communities.

The gradual introduction of legislative and regulatory changes aimed at the formation of self-sufficient communities and the enlargement of territorial communities significantly altered the quantitative structure of the budgetary system of Ukraine and transformed the patterns of intergovernmental fiscal relations.

Stage III (2020–2021): Completion of the Administrative-Territorial Reform in Ukraine and Consolidation of the Results of Fiscal Decentralisation. The completion of the reorganisation of districts and the establishment of a new territorial basis for local self-government resulted in the formation of a new structure of the budgetary system based on capable communities. Since the budget reform in Ukraine was implemented in parallel with the administrative-territorial reform, from 2021 a significant reduction in the number of districts, and accordingly, district budgets, was observed, decreasing by 75% (from 488 to 119 units), while the number of local budgets increased eightfold [17].

During this period, peak indicators of the share of local budgets within the consolidated budget were achieved, accompanied by an increase in the financial self-sufficiency of communities and the stabilisation of the system of intergovernmental fiscal relations. Thus, the period 2020–2021 can be considered a

stage of institutional completion of the reform and confirmation of its effectiveness in the medium term.

Stage IV (from 2022 to the present): Local Public Finances under Martial Law and the Partial Recentralisation of Budgetary Resources. The full-scale military invasion necessitated a stronger concentration of financial resources at the national level in order to meet the state's defence needs. This was reflected in a temporary revision of the distribution proportions of the personal income tax (including the military personal income tax component), the restoration of reverse equalisation transfers, changes in the prioritisation of budgetary expenditures, and the centralisation of certain financial resources.

At the same time, local governments demonstrated a high level of budgetary discipline and the capacity to adapt to the new operating conditions.

Transformation of the Revenue Base of Local Governments during Wartime. Under martial law and macroeconomic instability, along with the destruction of production and social infrastructure, large-scale migration, and structural economic transformations, a stable financial base becomes a key prerequisite for the effective functioning of local authorities. During wartime the fiscal capacity of communities acquires strategic importance, as it represents one of the key factors ensuring the stability of the financial system and forms the foundation for the country's post-war recovery.

In this context, analysis of local budget revenue dynamics makes it possible to assess the actual level of financial autonomy of communities, the effectiveness of budgetary regulation mechanisms, and the impact of external shocks on the resource potential of local governments.

In order to evaluate the influence of wartime and macroeconomic factors on the financial capacity of communities, it is necessary to analyse the dynamics of local budget revenues. The aggregated indicators of local budget revenues in Ukraine for 2021 – 2025, presented by the main groups of the budget classification, are shown in Table 1.

Table 1. Dynamics of Local Budget Revenues in Ukraine, UAH bln, 2021 – 2025

Revenue Groups	Years					Deviation (2025 vs 2021)	
	2021	2022	2023	2024	2025	UAH bln	Relative change, %
Total, including:	580,7	555,1	652,6	679,5	751,9	171,2	129,5
Tax revenues, including:	346,7	393,5	434,5	441,1	504,5	157,8	145,5
- <i>Personal income tax</i>	212,2	272,2	289,4	257,5	300,3	88,2	141,5
- <i>Local taxes and fees</i>	89,9	84,3	100	119,8	135,3	45,4	150,5
Non-tax revenues	27,2	22,0	36,5	43,6	43,1	15,9	158,5
Other revenues (capital transactions and earmarked funds)	4,1	2,6	3,9	5,5	6,8	2,7	165,9
Transfers	202,7	136,8	177,4	187,9	196,1	-6,6	96,7

Source: compiled by the authors based on [17]

The analysis of the data presented in Table 1 indicates that during the analysed period local budget revenues demonstrate a general upward trend. Over the period 2021 – 2025, their nominal value increased by 29,5% (from UAH 580,7 billion to UAH 751,9 billion), reflecting the gradual recovery of economic activity and the adaptation of the budgetary system to the conditions of martial law.

In 2022, a decline in the revenue base of local budgets to UAH 555,1 billion was observed due to the outbreak of the full-scale invasion, a reduction in business activity, large-scale population migration, disruptions to business and production linkages, a decline in wage levels, and the introduction by the government of tax relief measures related to the payment of the single tax, which represents an important source of revenue for local budgets.

Beginning from 2023, a gradual recovery of economic activity has been observed, accompanied by the adaptation of businesses to new operating conditions, the relocation of many enterprises to relatively safer regions and the restoration of their economic activity, as well as increases in the minimum wage and the average level of remuneration in many sectors. These factors contributed to the restoration of a positive trend in the formation of local budget revenues. Over

the period 2022 – 2025, local budget revenues increased by 35,5% (from UAH 555,1 billion to UAH 751,9 billion).

An important trend during the analysed period was the substantial expansion of the tax base of local budgets. The volume of tax revenues increased by UAH 157,8 billion (or 45,5%), rising from UAH 346,7 billion to UAH 504,5 billion, which indicates the growing importance of tax revenues in the formation of the financial resources of territorial communities. The most significant component is the personal income tax, the revenues from which increased by UAH 88,2 billion (or 41.5%). This growth is largely associated with the growth in payroll and increases in the statutory minimum wage.

A positive trend was also observed in local taxes and fees, the volume of which increased by 50,5%, reflecting the gradual recovery of entrepreneurial activity and the expansion of the tax base of territorial communities.

At the same time, a tendency towards a relative decline in the importance of intergovernmental transfers in the structure of local budget revenues can be observed. Despite a partial recovery of their volumes after the sharp decline in 2022, the overall amount of transfers in 2025 (UAH 196,1 billion) remains lower than in 2021 (UAH 202,7 billion), corresponding to a decrease of UAH 6,6 billion (or 3,3%).

The most important tax revenues of local budgets are personal income tax and local taxes and fees. The main revenue-generating source remains personal income tax, the share of which demonstrates certain fluctuations: it increased from 36,5% in 2021 to 49,0% in 2022. However, in 2023 – 2024 a decline in its share was observed (to 44,4% and 37,9%, respectively), which was caused by the transfer of the military personal income tax component to the state budget. A partial recovery to 39,9% in 2025 indicates a certain adaptation of business entities to the new conditions, as well as increases in the average wage level across various sectors of economic activity and the public sector.

Thus, during 2021 – 2025, a clear tendency can be observed toward a shift in the structure of local budget revenues in favour of tax revenues and a relative

reduction in dependence on intergovernmental transfers. This trend represents an important outcome of the fiscal decentralisation reform, even under the conditions of martial law.

The analysis of the implementation of approved budget indicators is important for assessing the actual correspondence between planned indicators and achieved results, which becomes particularly relevant under conditions of wartime instability. According to the available data [17], the overall level of execution of local budgets by revenues amounted to 93.7% in 2022, 97.6% in 2023, 100.7% in 2024, and 97.9% in 2025. At the same time, even during the period of active hostilities, local self-government bodies ensured the overfulfilment of tax revenue targets (100.9% in 2022, 102.3% in 2023, 104.2% in 2024, and 101.1% in 2025) and maintained a high level of execution of non-tax revenues (95.5%, 103.3%, 104.6%, and 102.6%, respectively). Such dynamics indicate an adequate quality of budget planning at the local level, adherence to financial discipline, and an active search for internal reserves to strengthen the revenue base even under conditions of significant economic risks.

The formation of local budget revenues in 2022 – 2025 is therefore characterised by opposing trends. On the one hand, the significant role of own and assigned tax sources has been preserved, which indicates the existence of an established level of financial autonomy of communities. On the other hand, the wartime context and the partial recentralisation of resources have constrained the further increase in the share of long-term revenue sources of local budgets. Overall, the obtained results confirm that the fiscal decentralisation reform has ensured a structural strengthening of the revenue base of local self-government, although wartime challenges have somewhat transformed the mechanisms of its functioning.

Transformation of Local Budget Expenditures during the Wartime.

Within the framework of the fiscal decentralisation reform, local budget expenditures play an important role as an instrument for the implementation of delegated powers and the realisation of the principle of subsidiarity. It is through

the expenditure system that local self-government bodies ensure the financing of both their own competences – such as the development of local infrastructure, improvement of municipal territories, support for municipal services, and the implementation of local economic development programmes – and the functions delegated by the state in the areas of education, healthcare, social protection, and other socially significant sectors.

In the context of decentralisation, particular importance is attached to the correspondence between the scope of delegated powers and the availability of financial resources required for their implementation. In order to better understand the transformations occurring within the system of local public finances, it is also necessary to analyse changes in the structure of local budget expenditures. The dynamics of local budget expenditures in Ukraine by functional classification for 2021 – 2025 are presented in Table 2.

Table 2. Dynamics of Local Budget Expenditures in Ukraine by Functional Classification (UAH bln), 2021–2025

Expenditure Groups	Years					Deviation (2025 vs 2021)	
	2021	2022	2023	2024	2025	UAH bln	Relative change, %
General public services	45,9	46,5	53	61,6	73,5	27,6	160,1
Public order and safety	1,7	11,1	16,8	20,1	17,6	15,9	1035,3
Economic activity	112,4	61,1	112,9	96,7	89,4	-23	79,5
Environmental protection	2,4	0,5	1,2	0,9	1,2	-1,2	50,0
Municipal services	56,7	40,6	62	58,6	76,1	19,4	134,2
Health care	33,1	31	38,2	37,2	43,2	10,1	130,5
Culture and sports	27,4	22,6	26,6	29,3	32,7	5,3	119,3
Education	249,1	232,2	248,2	283,7	326,8	77,7	131,2
Social protection and social security	28,1	29,2	44,9	57,2	61,6	33,5	219,2
Intergovernmental transfers	12,6	9,5	42,9	26,5	52,1	39,5	413,5
Total	569,4	484,3	646,7	671,8	774,2	204,8	136,0

Source: compiled by the authors based on [17]

The analysis of the data presented in Table 2 indicates that during the period 2021 – 2025 there was a tendency towards an increase in the total volume of local budget expenditures (by 36%). This reflects both the expansion of the powers of

local self-government bodies and the need to respond to new socio-economic and security challenges arising from the conditions of martial law.

During the analysed period, the most significant growth was observed in expenditures on public order and safety, which increased 10.4 times (from UAH 1.7 billion in 2021 to UAH 17.6 billion in 2025), as well as in intergovernmental transfers, which increased 4.1 times (from UAH 12.6 billion to UAH 52.1 billion in 2025). At the same time, a decline in local budget expenditures on environmental protection and economic activity was recorded during the analysed period.

In 2022, a decrease in local budget expenditures was recorded, amounting to 15% compared with 2021, as a result of the onset of full-scale military hostilities, which led to a fundamental shift in budgetary priorities. The reduction in financing for certain areas was associated with the need for the rapid concentration of resources on meeting defence needs, supporting internally displaced persons, financing critical infrastructure, and minimising non-priority expenditures.

Starting from 2023, a gradual recovery and further growth of local budget expenditures has been observed, driven by a certain stabilisation of the economic situation, the recovery of tax revenues, and the gradual expansion of community support programmes. Overall, during the period of military hostilities (2022 – 2025), the volume of local budget expenditures increased by 59.9%, indicating the gradual adaptation of the functioning of local public finances to the conditions of a wartime economy.

Overall, the indicators of local budget expenditures in 2022 reflect crisis-related developments and are characterised by a decline in the financing volumes of most functional expenditure groups. In contrast, the period 2023 – 2025 demonstrates a gradual increase in the absolute volumes of most expenditures, as well as a strengthening of the role of local budgets in meeting the social and economic needs of communities. The identified trends confirm a relatively high level of flexibility and adaptability of the budgetary system to current social, economic, and wartime challenges, and indicate the concentration of resources on basic social functions that are public services closest to citizens, particularly education.

Conclusions and Prospects for Further Research. The conducted research provides grounds to conclude that the reforms implemented in Ukraine in the administrative-territorial, budgetary, and tax spheres, aimed at strengthening the role of local self-government, have ensured, in the medium term, the strengthening of the financial capacity of territorial communities.

The study also proposes an authors' periodisation of the development of fiscal decentralisation in Ukraine, which makes it possible to distinguish key stages of institutional formation, practical implementation, consolidation of reform outcomes, and adaptation of the local finance system to wartime conditions.

The pre-war stage of fiscal decentralisation development (2014 – 2021) was characterised by the expansion of the revenue base of local budgets, an increase in the share of own tax revenues, and the formation of institutional preconditions for the financial autonomy of communities. This contributed to improving the quality of financial provision of public services and creating the basic conditions for the fiscal sustainability of territories. Thus, the pre-war stage confirmed the potential effectiveness of the decentralisation reform, while its results became an important factor that enabled the budgetary system to adapt to the challenges of the wartime period.

The analysis of the dynamics of local budget revenues during the wartime period indicates a gradual recovery of their tax base, an increasing role of own revenues, and a relative reduction in dependence on intergovernmental transfers. Despite the negative economic consequences of the initial phase of the full-scale war, the following years demonstrate the adaptation of economic activity and the restoration of a positive trend in the formation of local budget revenues, confirming a certain degree of institutional resilience of the fiscal decentralisation reform.

At the same time, the wartime period has led to certain transformations in the mechanisms of the budgetary system through the partial recentralisation of financial resources, changes in the distribution proportions of certain taxes, and the reorientation of budget priorities towards financing defence, security, and social needs. The analysis of local budget expenditures confirms the growing role of

financing basic social functions, particularly education, social protection, and the maintenance of critical infrastructure, which indicates the adaptability of local public finances to the conditions of a wartime economy.

The results of the study confirm that the fiscal decentralisation reform has created institutional preconditions for strengthening the financial independence of communities and reinforcing their resource base. Even under conditions of martial law, local authorities ensure a relatively effective mobilisation of financial resources, the fulfilment of budgetary obligations, and the maintenance of stable provision of social services.

The results of the study demonstrate that fiscal decentralisation has become an important institutional factor supporting the resilience of Ukraine's public finance system even under conditions of wartime economic instability.

Further research should focus on assessing the fiscal sustainability of communities with different levels of economic development, analysing the long-term consequences of wartime fiscal recentralisation, and evaluating the effectiveness of intergovernmental equalisation mechanisms in the post-war recovery period.

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