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Municipal finances in Ukraine and the risks to their fiscal sustainability: the impact of war

H. V. Voznyak, D. O. Sorokovyy, Yu. O. Holynskyy

Purpose. The purpose of this article is to conduct a problem-oriented analysis of the financial condition of Ukrainian municipalities and to identify risks to their financial stability amid the Russian-Ukrainian war.

Methodology. The methodological framework of the study is based on statistical, structural, and comparative analysis using official open data. The observation period covers 2022–2025, ensuring relative homogeneity of the dataset.

Findings. The analysis of local budget revenues, together with an assessment of changes in the structure of expenditures and intergovernmental transfers, made it possible to identify key risks to the fiscal sustainability of Ukrainian municipalities during the war. The findings indicate that the war led to a decline in local budget revenues at the initial stage of the full-scale invasion and significantly intensified asymmetries in municipal fiscal capacity. The most severe losses were experienced by frontline municipalities, where the destruction of economic potential, population displacement, and the loss of infrastructure resulted in a prolonged decline in own-source revenues. At the same time, municipalities located in relatively safer regions demonstrated revenue growth due to business relocation and the movement of labor resources. The study shows that the structure of local budget revenues has remained relatively stable and continues to be characterized by the dominance of the personal income tax, a substantial share of which in 2022–2023 was generated by the taxation of military personnel's income. This creates additional risks of fiscal vulnerability and increases municipal dependence on a single revenue source. The research also reveals a growing dependence of local budgets on intergovernmental transfers and a deepening differentiation in the fiscal capacity of municipalities, which in turn constrains the ability of some municipalities to ensure an adequate level of public service provision without external support.

Originality. The risks to financial stability have been systematically identified. It has been shown that these risks are of a spatial and security nature.

Practical value. The practical significance of the results lies in their potential application for improving fiscal equalization mechanisms, as well as for developing policy measures aimed at diversifying local revenue bases and supporting municipalities that have suffered the greatest economic losses as a result of the war.

Keywords: local finances, local budgets, war, territorial municipalities, risks, resilience, revenue, expenditure, taxes, transfers, financial stability, financial resources.

Introduction

Local public finance constitutes the foundational framework for the functioning of local self-government and the provision of essential public services. As a result of a largely successful decentralization reform, Ukraine has, over the past decade, established a new model of intergovernmental fiscal relations that has expanded the revenue base of local budgets, strengthened fiscal autonomy, and created incentives for municipalities to enhance their own financial capacity. However, the Russian-Ukrainian war, whose active phase has persisted since February 2022, has fundamentally transformed the operating environment of local public finance systems, bringing the issue of fiscal resilience of municipalities to the forefront. During this period, several notable trends have emerged, including a contraction of economic activity in certain territories, structural shifts in the tax base of local budgets, increased reliance on intergovernmental transfers, and a rise in social and security-related pressures. These developments have amplified risks that adversely affect municipal fiscal resilience. Importantly, both the nature and magnitude of these risks are highly uneven, shaped by territorial specificities, the extent of

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war-related destruction, demographic shifts, and the institutional capacity of local governments.

Under such conditions, the analysis and assessment of the financial position of Ukrainian municipalities – particularly from the perspective of identifying key drivers and risks to fiscal resilience – becomes critically important. Such analysis serves as a necessary foundation for the design of effective fiscal policy instruments, both in the context of ongoing wartime challenges and in the period of post-war recovery.

Literature Review

Recent academic research increasingly focuses on the financial resilience and vulnerability of local governments when facing external shocks, such as economic crises, pandemics, or natural disasters. A central contribution to this debate is the conceptualization of fiscal vulnerability as a multidimensional and context-dependent phenomenon (Padovani et al., 2021) propose an analytical framework for assessing municipal financial vulnerability during crisis situations, emphasizing that fiscal fragility arises from a combination of institutional design, internal financial conditions, and the perceived capacity of local governments to cope with shocks. Subsequent cross-country research confirms that systemic fiscal rules and budgeting frameworks – such as debt limits and balanced budget requirements – play a significant role in shaping how local governments respond to large-scale crises (Padovani et al., 2025). These findings highlight that local fiscal resilience cannot be understood solely through financial indicators but must also account for the broader institutional environment in which municipalities operate.

The concept of fiscal resilience itself has been further developed in recent literature (Rao et al., 2023) conceptualize fiscal resilience as a dynamic process consisting of three interrelated stages: resistance to an initial shock, fiscal recovery in the aftermath of the crisis, and long-term renewal of financial capacity. Their empirical analysis demonstrates that factors such as revenue diversification, countercyclical fiscal capacity, and the structure of local revenues and expenditures significantly influence how municipalities recover from economic downturns. Similar conclusions emerge from comparative research on local government finances in Central and Eastern Europe (Uryszek and K ysik-Uryszek, 2025), examining the fiscal sustainability of local government units in the Visegrad countries, reveal substantial differences in fiscal resilience across national contexts, reflecting variations in debt management practices and broader institutional arrangements.

Another important strand of literature concerns the measurement and monitoring of financial resilience in local governments (Iacuzzi, 2022), in a structured literature review, highlights the growing use of fiscal and budgetary indicators as tools for evaluating municipal financial stability and vulnerability to exogenous shocks. These indicators provide an analytical basis for assessing the sustainability of local finances and identifying early signals of fiscal stress. Complementary research emphasizes that effective financial governance mechanisms are equally important for strengthening resilience. For example, (Chiwawa and Uwizeyimana, 2025) demonstrate that sound financial management practices – including participatory budgeting, integrated financial systems, and transparent resource allocation – can enhance fiscal discipline and support sustainable service delivery at the local level.

The role of organizational and managerial capacities has also received increasing attention in recent studies (Barbera et al., 2025) show that local governments' responses to crises depend not only on their objective financial position but also on managerial perceptions of financial capacity and the ability of local officials to mobilize adaptive strategies. Organizational resources such as analytical capacity, critical thinking, and improvisational problem-solving contribute to shaping whether municipalities pursue proactive or defensive responses to crisis conditions.

A related body of research examines the effectiveness of specific policy strategies used by local governments to address fiscal stress. Inter-municipal collaboration has frequently been proposed as a mechanism to enhance efficiency and resilience. However, empirical findings remain mixed (Elston and Bel, 2023) find that collaboration among English local authorities partially mitigated declines in service accuracy during the COVID-19 lockdown, although it did not prevent reductions in service delivery speed. Earlier research also suggested that shared administrative arrangements do not necessarily generate significant efficiency gains or reductions in public spending (Dixon & Elston, 2019). These findings indicate that collaboration may offer limited benefits and cannot substitute for adequate fiscal capacity.

Other studies focus on how local governments respond to environmental and economic shocks through budgetary adjustments (Lodi, et al., 2023), analyzing the fiscal consequences of floods in Italian municipalities, show that the ability to mobilize internal financial resources significantly affects the trajectory of post-disaster fiscal outcomes. More resilient municipalities are able to rely on internal budgetary reserves, while more vulnerable ones become increasingly dependent on intergovernmental transfers. Research on climate-related disasters in Europe further suggests that higher levels of fiscal autonomy at the local level may reduce economic losses by enabling municipalities to invest in risk prevention and emergency response mechanisms (Coluccia & Porrini, 2023).

Recent scholarship also highlights the broader social and institutional implications of resilience strategies (Arrieta and Davies, 2025) demonstrate that local governments often frame policy responses to fiscal stress in terms of «resilience, «emphasizing savings, reserves, collaboration, and investment strategies. However, their findings suggest that such strategies may generate uneven outcomes, providing temporary financial stability while potentially creating longer-term pressures on local systems (Similarly, Gray, 2023) argues that municipality-based resilience initiatives may reproduce existing social inequalities if recovery processes prioritize visible interventions over addressing structural vulnerabilities.

Finally, studies of crisis management during the COVID-19 pandemic illustrate the importance of proactive financial planning and intergovernmental support mechanisms. Research on English local governments indicates that while municipalities may manage routine financial risks through reserves and prudent fiscal management, large-scale shocks often require significant support from central governments to maintain service delivery and economic stability (Ahrens & Ferry, 2020). Other studies highlight how local governments used budgetary resources and policy interventions to support economic recovery and social protection during the pandemic (Fillaili et al., 2022). More broadly, recent systematic reviews of financial resilience emphasize that effective budgeting, financial management capacity, and adaptive governance structures remain key determinants of resilience across governmental levels (Tahir & Richards, 2025).

Overall, the contemporary literature portrays fiscal resilience of local governments as a multidimensional concept shaped by institutional frameworks, financial governance practices, organizational capacity, and the availability of internal and external resources. These insights provide an important analytical foundation for examining the financial stability of territorial municipalities in Ukraine, particularly in the context of wartime conditions, where municipalities face simultaneous fiscal pressures, economic disruption, and heightened uncertainty.

Purpose of the Study

The purpose of this article is to conduct a problem-oriented analysis of the financial condition of Ukrainian municipalities and to identify risks to their financial stability amid the Russian-Ukrainian war.

Methodology

To achieve this objective, the study employs statistical, structural, and comparative methods based on official open data sources. All municipalities are classified into four groups according to the level of security risks and their economic function during the war period: frontline municipalities; municipalities affected by destruction; municipalities located in support regions; and rear municipalities. The year 2021 is used as the baseline for comparison, representing the last pre-war period of relative fiscal stability in local public finance. The observation period covers 2022-2025, ensuring a relatively homogeneous dataset.

Results and Discussion

The analysis follows a structured methodological sequence: (i) assessment of the transformation of the revenue base; (ii) examination of changes in expenditure structure; and (iii) identification of risks to municipal fiscal resilience. It is assumed that the resulting analytical findings will enable the identification of key challenges in the transformation of local public finance and will serve as a foundation for the development of effective policy instruments aimed at strengthening municipal fiscal resilience, both under wartime conditions and in the post-war recovery period.

The assessment of local budget revenues during the wartime period reveals several key trends.

(a) Decline in local budget revenues and increasing spatial disparities. Total local budget revenues (including transfers) amounted to UAH 555.7 billion in 2022, representing a decrease of UAH 25 billion compared to 2021. At the same time, the overall structure of local budget revenues remained relatively stable: tax revenues continued to account for the largest share (approximately 60-70%, depending on the year). Although the share of intergovernmental transfers declined in 2022 (from 34.9% in 2021 to around 25%), it remained substantial.

At the initial stage of the full-scale war, the formation of local budget revenues was significantly constrained. On the one hand, local governments were required to rapidly adapt to new conditions – hosting, accommodating, and registering internally displaced persons (IDPs), supporting the Armed Forces of Ukraine, facilitating business relocation, and restoring critical infrastructure and essential services. On the other hand, the central government introduced a range of fiscal and tax policy adjustments aimed at supporting businesses, which inevitably affected revenue performance at the local level. Despite these challenges, local governments demonstrated a notable capacity for adaptation. As a result, 2023-2024 were characterized by a visible recovery in financial performance, even in the context of the reallocation of the «military PIT» to the state budget in the fourth quarter of 2023.

A further important finding concerns the growing asymmetry in own-source revenues across municipalities, depending on their proximity to the frontline (Figure 1). In 2022, a sharp decline in own revenues was observed in frontline municipalities. By 2025, their revenue levels remained significantly below pre-war benchmarks, while growth rates relative to 2021 indicate a prolonged contraction rather than a temporary downturn. These trends are largely explained by objective factors, including the intensity of hostilities, occupation of territories, destruction of infrastructure, population displacement, and the erosion of local economic capacity.

In contrast, municipalities affected by destruction (with the notable exception of Sumy Oblast, where the security situation remains *крайне* challenging and significantly constrains fiscal recovery) demonstrate a gradual restoration of their own revenue base over the period 2023-2025, with growth rates ranging from 130% to 160%.

Municipal finances in Ukraine and the risks to their fiscal sustainability: the impact of war

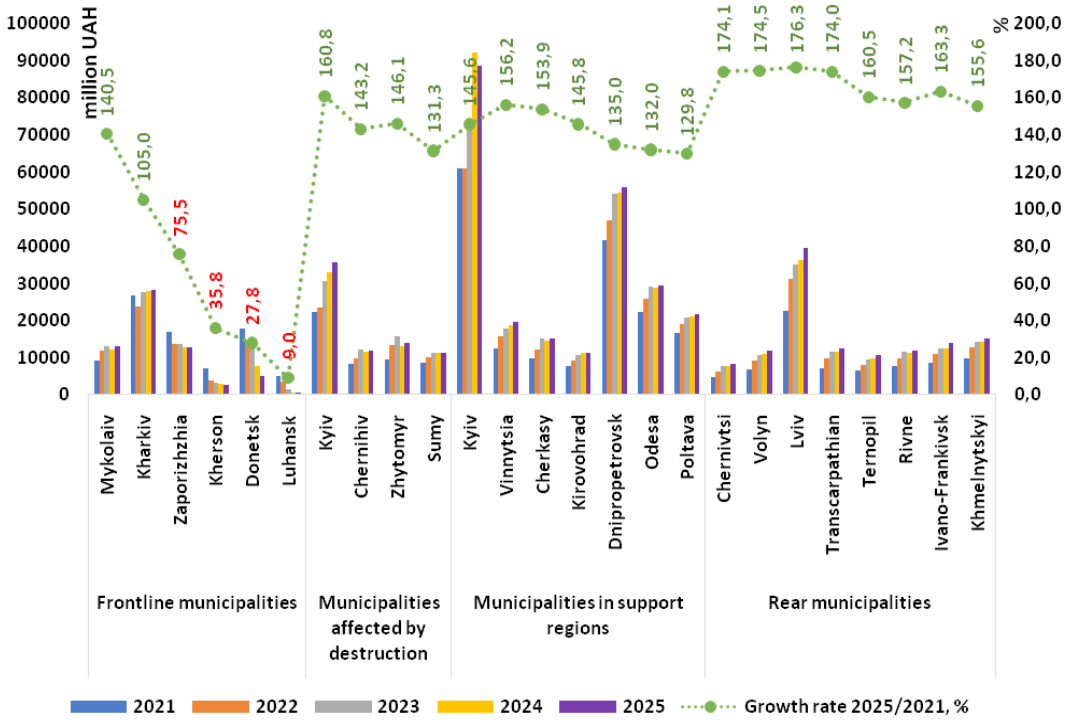


Fig. 1. Local budget own revenues in 2021-2025, million UAH

Source: calculated based on data from URL: <https://openbudget.gov.ua>

Rear municipalities and those located in support regions demonstrated consistently strong growth in own-source revenues throughout the entire observation period. The city of Kyiv continues to maintain its status as the country's primary «financial center». «In 2025, the highest growth rates in own revenues were recorded in rear regions, with leading positions held by municipalities in Chernivtsi, Volyn, Zakarpattia, Ternopil, Ivano-Frankivsk, and Lviv oblasts (Figure 1).

These trends reflect a broader reallocation of economic activity, including business relocation and shifts in the spatial structure of local public finance. On the one hand, this indicates a concentration of economic activity in relatively safer rear regions. On the other hand, it contributes to the emergence of new asymmetries in municipal fiscal capacity and increases the dependence of heavily affected municipalities on intergovernmental transfers. The findings support the conclusion that, during the full-scale war, the share of municipalities with low tax capacity has increased across all regions of Ukraine without exception.

Further evidence of growing disparities is observed in per capita own revenues. For instance, in 2025, the gap between the «wealthiest» and «poorest» rural and settlement municipalities reached a factor of 38 (Figure 2), highlighting a substantial increase in fiscal inequality at the local level.

(b) Decline in revenues from key taxes alongside a stable revenue structure. The analysis of the revenue structure of the general fund of municipal budgets (excluding transfers) during the wartime period reveals significant changes in the volume of major revenue-generating taxes, while their relative composition remained largely unchanged. The leading sources of local budget revenues consistently include personal income tax (PIT), the single tax, land fees, and excise tax, with PIT playing a dominant role that introduces risks of fiscal vulnerability for municipalities.

In 2022, amid the shocks of military aggression and the emergence of new challenges, revenues from most major taxes declined, with the exception of PIT. Its share increased from 60.3% in 2021 to 68.4% in 2022, while in absolute terms it grew by UAH 60.3 billion compared to the previous year. This increase was driven both by a higher allocation rate of PIT to local budgets (from 60% to 64% at the beginning of 2022) and by rising incomes of military personnel.

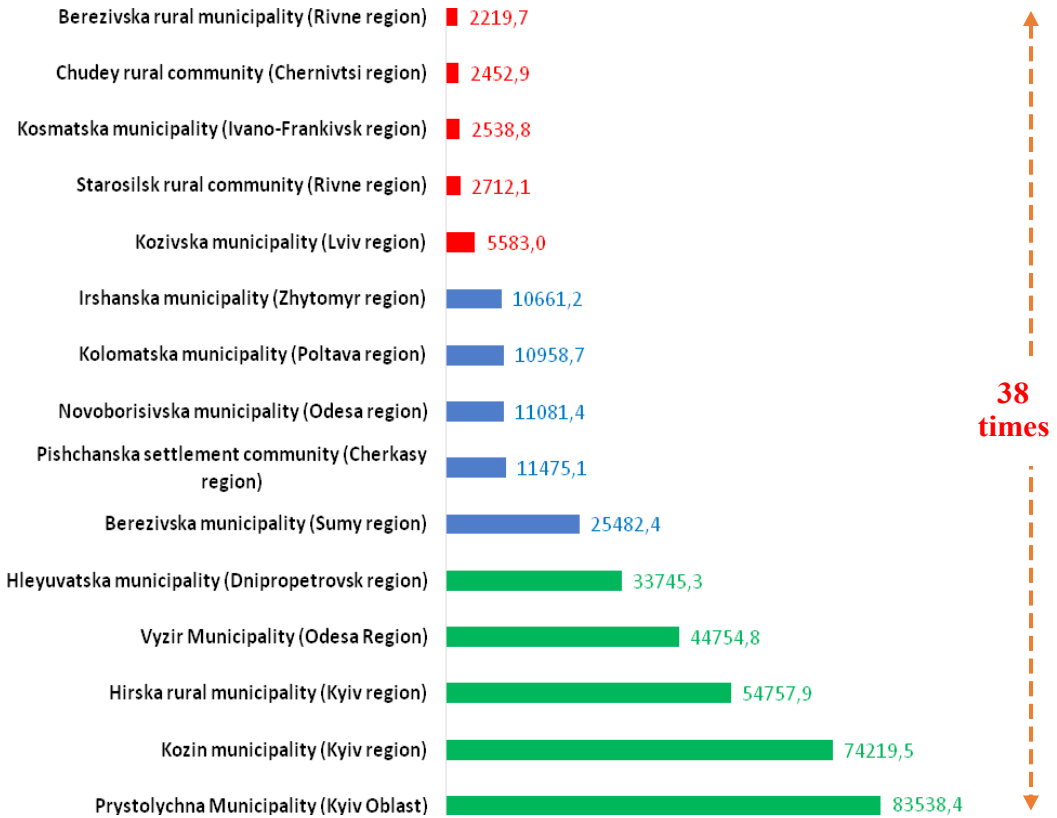


Fig. 2. Comparison of local budget own revenues per capita in 2025, UAH

Source: calculated based on data from URL: <https://openbudget.gov.ua>

However, the period 2023-2025 demonstrates a gradual decline in the share of this tax (to 58.4% in 2025), accompanied by an increasing reliance on intergovernmental transfers (as discussed below). For the sake of analytical completeness, it should be noted that a key factor behind this decline was the reallocation of the «military PIT» to the state budget starting from 1 October 2023.

Revenues from the single tax in 2022-2025 were broadly maintained at the 2021 level, largely due to fiscal measures introduced by the Government at the outset of the full-scale invasion. In particular, individual entrepreneurs under the simplified tax system (Groups I and II) were granted the right not to pay the single tax, while the eligibility criteria for Group III taxpayers were expanded. In addition, Group III taxpayers were allowed to switch to a reduced rate – from 5% to 2%. As a result, a significant share of large businesses opted into the simplified taxation regime (substituting the 18% corporate income tax with a 2% single tax), which in turn led to increased revenues for local budgets from this source.

The shortfall in land fee revenues (–UAH 5.7 billion in 2022 compared to 2021) can also be attributed to wartime tax policy adjustments. These included temporary exemptions from the payment of property tax (other than land) and land fees in territories affected by active hostilities or under temporary occupation. It is important to note that, even by the end of 2025, municipalities had not fully restored these revenues to their pre-war levels.

A decline in revenues from corporate profit tax of private sector enterprises was also observed, reflecting reduced economic activity, a contraction of industrial capacity in key regions, disruption of logistics chains, and damage to infrastructure. For instance, in 2022, growth amounted to –22.5% compared to the previous year. This suggests that the external shocks associated with the onset of the full-scale invasion triggered significant socio-economic disruptions at the municipal level, which, in turn, substantially undermined fiscal resilience.

Looking ahead, it is important to emphasize that tax revenue performance varies significantly across regions depending on the security context. When these trends are examined across the defined groups of municipalities, substantial differences become evident. In particular, 2022 can be characterized as a year of widespread revenue losses across nearly all revenue categories (with the exception of PIT and the single tax) for virtually all types of municipalities in Ukraine (Table 1).

The sharpest decline is evident in frontline and damaged municipalities (across all revenue sources). Due to the tax concessions introduced, the largest relative decline was recorded in excise duty (only two municipalities showed a minimal increase – Cherkasy +1% and Chernivtsi +4.2%) and land tax (several rear municipalities showed a minimal increase of 0.7-10%, Table 1). As for single tax payments in 2022, there were significant differences across municipalities in different groups: ranging from a +20.3% increase in municipalities in Lviv Oblast and +12.4% in municipalities in Volyn Oblast to –50.3% in municipalities in Kherson Oblast or –23.8% Zaporizhzhia regions (not to mention Luhansk/Donetsk regions). It is evident that hinterland municipalities recorded a positive increase compared to the previous year. In other words, the relocation of small and medium-sized businesses from areas where hostilities were taking place to safer regions is a clear reflection of trends in revenue from this type of tax. The decline in entrepreneurial activity, the destruction of infrastructure, and the relocation of businesses represent the next negative trend in the formation of local budget revenues from corporate income tax, which demonstrated that only the rear municipalities of the Chernivtsi, Volyn, and Lviv regions recorded a positive growth in revenue (Table 1).

As for personal income tax (PIT) revenue, we have already mentioned the significant growth in revenue from this tax in 2022, despite the loss of industrial capacity, extensive destruction, and so on (particularly in the Kharkiv, Donetsk, Luhansk, Zaporizhzhia, Mykolaiv, Sumy and Dnipropetrovsk regions). These trends are driven by the war and, unfortunately, have nothing to do with improvements in the socio-economic development of local authorities (Fig. 3): the share of ‘personal income tax from military personnel’ in the total personal income tax of local authorities in Luhansk Oblast in 2022 was 56.4%, Mykolaiv Oblast – 50.7%, Donetsk Oblast – 45.9%, Zhytomyr Oblast – 46.9%, and so on. In other words, against the backdrop of a sharp fall in budget revenues, particularly in frontline municipalities, the majority of revenue was provided by personal income tax from military personnel (only municipalities in three regions showed a negative growth rate: Luhansk, Kherson and Zaporizhzhia, see Table 1).

If we analyse the situation across all municipalities in Ukraine (Fig. 3), the share of personal income tax paid by ‘military personnel’ in total personal income tax revenue stood at 32% in 2022 and 30% in 2023. It should also be noted that positive trends in the growth of personal income tax revenue excluding ‘military’ payments in 2022 were evident in the budgets of municipalities in rear regions

Table 1

Revenue from selected budget-forming taxes for 2022, % growth

Regions		PIT 2022/ 2021	Single tax 2022/ 2021	Land tax 2022/ 2021	Excise duty 2022/ 2021	Property tax 2022/ 2021	PIT 2022/ 2021
Frontline municipalities	Mykolaiv	57.4	-8.2	-36.9	-28.6	-36.9	-36.9
	Kharkiv	7.1	-12.2	-56.9	-39.1	-54.9	-32.3
	Zaporizhzhia	-0.8	-23.9	-40.8	-10.8	-47.7	-62.2
	Kherson	-27.2	-50.3	-78.3	-79.1	-62.7	-89.2
	Donetsk	3.4	-40.4	-48.2	-78.2	-62.8	-63.2
	Luhansk	-8.9	-61.6	-75.5	-80.6	-77.9	-67.5
Municipalities affected by destruction	Kyiv	21.6	7.4	-15.9	-41.9	-7.4	-22.6
	Chernihiv	42.4	-8.3	-19.3	-41.6	-5.4	-1.9
	Zhytomyr	67.9	0.1	-6.9	-24.1	-4.1	22.7
	Sumy	32.4	-3.8	-15.6	-25.4	-11.8	-13.6
	Kyiv	6.7	14.4	-28.9	-21.5	-13.2	9.1
Municipalities in support regions	Vinnitsia	41.8	5.7	4.9	-19.1	18.4	9.8
	Cherkasy	39.2	2.3	0.7	1	12	-29.3
	Kirovohrad	28.9	7.7	2.7	-16	27.1	14.3
	Dnipropetrovsk	35	7.1	10.6	-3.2	6.4	-67.1
	Odesa	33.7	-1.7	-6.9	-30.4	-12.5	-12.4
	Poltava	29.2	8.6	-1	-17.9	10.4	-22.7
Rural municipalities	Chernivtsi	49.5	9.2	0.2	4.2	43.7	34.6
	Volyn	54.9	12.4	6	-21.7	4.6	43.1
	Lviv	60.5	20.3	3.2	-19.6	40.5	43.9
	Transcarpathian	62.8	6.6	-4.6	-10.8	11.9	-13
	Ternopil	38.5	7.9	7.6	-13.9	0.1	-1.2
	Rivne	41.1	2.8	4.6	-20.8	3.7	-4.2
	Ivano-Frankivsk	47.4	9.1	-1	-11	1.8	-20.2
	Khmelnyskyi	51.2	9.2	-2.6	-14.8	10.6	-29.3
Average for Ukraine	28.3	2.1	-16.2	-26.7	-9.0	-22.5	

Source: calculated based on data from URL: <https://openbudget.gov.ua>

(Zakarpattia, Lviv and Ivano-Frankivsk regions), driven by the transfer of assets to western Ukraine during business relocation, population migration (and thus labour resources), as well as the relatively rapid recovery of economic activity among local businesses (Voznyak, 2024)

From October 2023, personal income tax on income received by military personnel, police officers and members of the rank and file and commanding staff was transferred in full to a special fund of the State Budget (Law of Ukraine No. 3428-IX), which inevitably affected the financial base of local self-government. From this, we can draw an interim conclusion: the loss of economic potential in frontline municipalities resulted in a deterioration of their financial capacity, whilst excessive dependence on a single source (namely personal income tax) only heightened the risk of their financial vulnerability (which exacerbated the differentiation between municipalities, for example, according to the tax capacity index). As for municipalities in the rear, despite the displacement of the labour force

Municipal finances in Ukraine and the risks to their fiscal sustainability: the impact of war

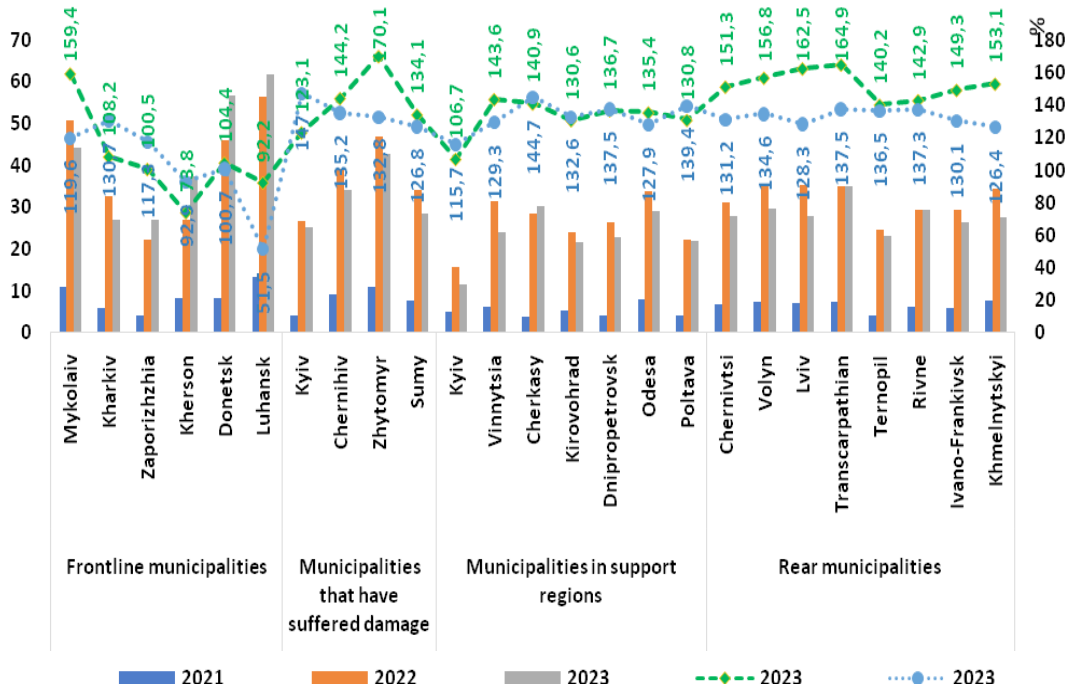


Fig. 3. Personal Income Tax (PIT) revenue from military personnel's income in local authorities' PIT for 2021-2023, share

Source: calculated based on data from URL: <https://openbudget.gov.ua>

and the relocation of businesses from the eastern regions, the financial indicators of local budgets have not seen any significant improvement, and consequently, no strengthening of financial stability. In contrast, municipalities in support regions (namely the de-occupied regions – Kyiv, Sumy and Chernihiv) and municipalities that remain at heightened risk due to their proximity to the front line (namely Dnipropetrovsk, Odesa, Kirovohrad and Poltava regions) have managed to restore and maintain a sufficiently high tax capacity.

The intensification of the russian-Ukrainian war in 2024-2025 has highlighted both the strengths and vulnerabilities of local government finances: on the one hand, they support social services and fund the maintenance of critical infrastructure; on the other, they adapt and respond instantly to new challenges. Following the withdrawal of financial resources from local budgets (at the end of 2023), and consequently a slight 'downturn' in 2024 (which heightened the risks of transfer dependency), thanks to stable own revenues, local authorities managed in 2025 to ensure revenue performance with a modest increase of +14% compared to the previous year (at the level of UAH 514.0 billion in the general fund). The critical situation persisted in the municipalities of Donetsk and Luhansk regions (Table 2).

In other words, the years 2024-2025 demonstrated the ability of local authorities to adapt to shocks, generate their own revenue and recover under extremely difficult conditions, which is an indicator of financial resilience.

If we analyse the dynamics of inter-budgetary transfers from the state budget to local budgets for 2022-2025 (in the context of their impact on the financial resilience of local authorities), we can state that (Fig. 4):

a) in 2022, there was an under-execution of budgeted allocations by more than 20% in all local authorities; however, the basic grant and the education subvention were transferred in full (UAH 16.3 billion and UAH 96.6 billion respectively),

Table 2

Revenue from selected budget-forming taxes for 2025, % growth

Regions		PIT 2025/ 2024	Single tax 2025/ 2024	Land tax 2025/ 2024	Excise duty 2025/ 2024	Property tax 2025/ 2024	PIT 2025/ 2024
Frontline municipalities	Mykolaiv	19.4	14.5	18.6	35.1	12.3	31.3
	Kharkiv	18.8	6.9	20.1	30.4	-20.1	36.3
	Zaporizhzhia	9.1	2.4	33.8	23.9	33.4	33.9
	Kherson	5.3	5.2	-13.1	16.6	-78.5	182.2
	Donetsk	-21.7	-11.6	-54.2	-1.8	-33.4	-78.4
	Luhansk	-0.1	-9.8	0.0	-10.8	0.0	13.0
Municipalities affected by destruction	Kyiv	24.0	12.9	28.0	40.0	20.0	27.1
	Chernihiv	15.2	18.1	23.9	33.5	21.4	7.1
	Zhytomyr	20.9	19.2	21.2	29.0	21.8	48.6
	Sumy	14.1	11.0	9.6	40.2	16.2	-7.2
	Kyiv	13.9	7.9	13.7	32.7	36.5	42.6
Municipalities in support regions	Vinnitsia	17.8	9.5	23.1	33.7	20.1	35.3
	Cherkasy	16.8	10.1	18.5	31.9	16.7	47.0
	Kirovohrad	12.8	17.4	16.2	22.2	20.9	-8.9
	Dnipropetrovsk	15.4	12.9	6.9	29.9	17.6	8.2
	Odessa	14.1	12.0	10.2	25.1	13.7	-13.1
	Poltava	14.5	13.9	16.1	32.8	29.7	-7.2
Rural municipalities	Chernivtsi	19.3	14.7	20.7	31.8	13.5	26.4
	Volyn	24.2	10.9	16.8	50.1	5.8	14.4
	Lviv	22.0	7.5	38.9	36.4	19.5	6.6
	Transcarpathian	19.6	9.7	25.6	35.5	25.5	83.8
	Ternopil	18.4	11.7	28.4	38.9	14.5	20.0
	Rivne	20.5	16.3	19.1	38.0	15.0	12.6
	Ivano-Frankivsk	20.7	13.4	23.6	39.6	15.1	56.4
	Khmelnyskyi	21.4	16.9	14.1	36.3	12.2	46.9
Ukrainian average	15.1	10.1	15.2	30.0	10.8	26.6	

Source: calculated based on data from URL: <https://openbudget.gov.ua>

and local authorities also had a reverse grant (UAH 9.3 billion) at their disposal, which was not withdrawn to the state budget during wartime (however, from 2023 onwards, thanks to amendments to the Resolution (Resolution of the Cabinet of Ministers of Ukraine), the reverse grant will only be withdrawn from the local budgets of territories where hostilities are taking place or which are temporarily occupied).

b) From 2023 to 2025, we observe a sharp increase in transfers within the structure of local budget revenues (Fig. 4) in virtually all municipalities across Ukraine's regions, accompanied by a parallel decline in the share of tax revenues (as mentioned above). The average growth rate was: +35.8% in 2023; +8.7% in 2024; 6.0% in 2025. It follows that the war has had a negative impact on the ability of municipalities to accumulate their own financial resources, and the increase in the

*Municipal finances in Ukraine and the risks to their fiscal sustainability:
the impact of war*

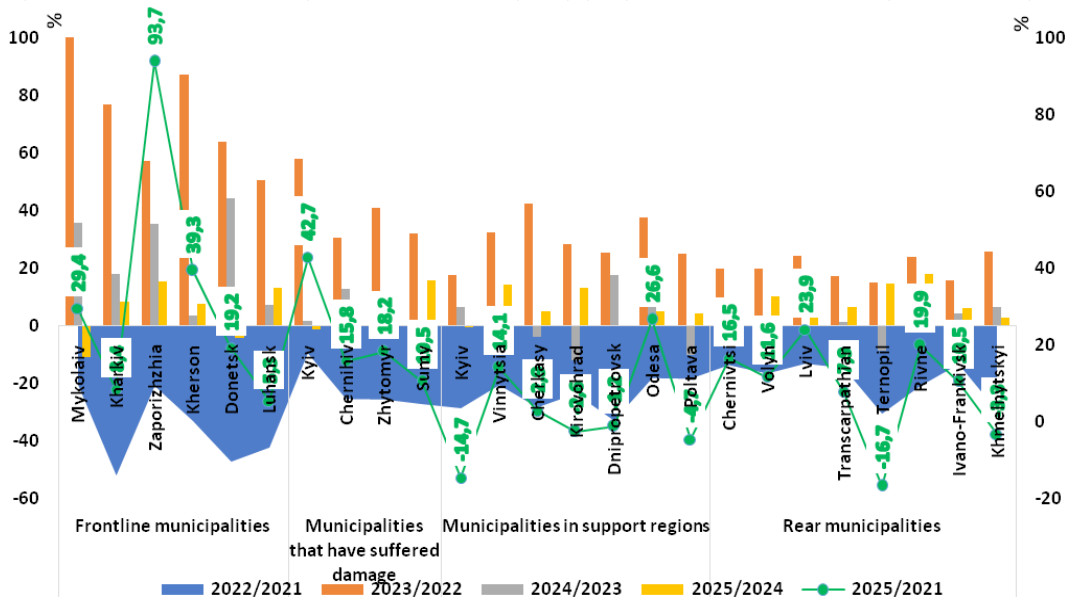


Fig. 4. Dynamics of inter-budgetary transfers for 2021-2025, growth rates

Source: calculated based on data from URL: <https://openbudget.gov.ua>

this is a result of the Russian-Ukrainian war.

When discussing transfers, it is worth mentioning the additional grants to local budgets for the exercise of local self-government powers in de-occupied, temporarily occupied and other territories of Ukraine that have been adversely affected by the war. For example, in 2023, such a subsidy was approved for the first time, amounting to 23.9 billion UAH, to address local budget imbalances. There were 1,130 such local authority budgets. It is clear that the largest sums were allocated to frontline municipalities (Report, 2024):

- Donetsk Oblast (43 local authorities and the regional budget) in the amount of 3.9 billion UAH (or 22.8% of expenditure), with the largest budget being that of the Mariupol Local Authority in the amount of 2.0 billion UAH;
- Luhansk Oblast (26 territorial municipalities and the regional budget) in the amount of 2.0 billion UAH (or 11.9% of total expenditure), with the largest budgets being those of Lysychansk (0.5 billion UAH) and Starobilsk (0.1 billion UAH), and the Luhansk Oblast regional budget (0.3 billion UAH);
- Zaporizhzhia Oblast (66 territorial municipalities and the regional budget) totalling 1.8 billion UAH (or 10.8% of total expenditure), the largest being the budgets of Zaporizhzhia and Melitopol territorial municipalities, each amounting to 0.2 billion UAH, the regional budget of Zaporizhzhia Oblast amounting to 0.2 billion UAH, and the budget of Berdiansk territorial municipality amounting to 0.1 billion UAH.

As regards local budget expenditure, we can note that during the large-scale Russian-Ukrainian war, the following trends were evident:

- a gradual reorientation of the expenditure structure towards social security, support for the population, and housing and communal services. Thus, whilst 2022 was a year of 'shock transformation' for the local budgets of Ukraine's territorial municipalities, which initiated changes in the expenditure structure of local budgets (we note a sharp reduction in capital expenditure due to resource constraints, which accounted for 56.2% of total expenditure in 2021 (Fig. 5b) and excessive uncertainty; 2023 can be characterized as a 'moderate transition from

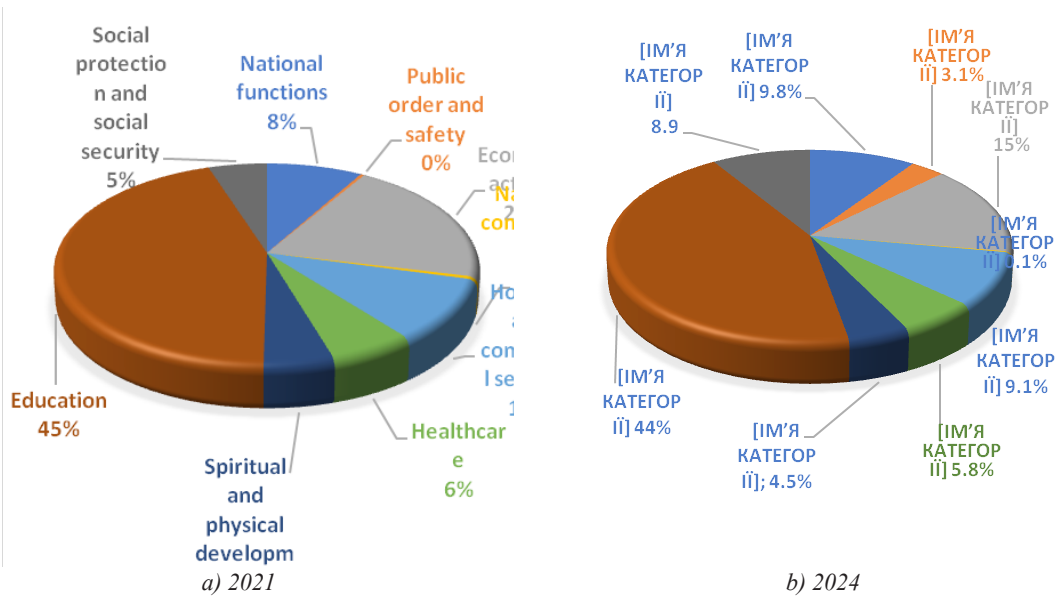


Fig. 5. Structure of local budget expenditure (excluding transfers) by functional classification, %

Source: calculated based on data from URL: <https://openbudget.gov.ua>

crisis to partial functional adaptation' of local budget expenditure, manifested in the gradual recovery (with the exception of frontline municipalities) of capital expenditure to 2021 levels (both due to the easing of restrictions introduced by amendments to CMU Resolution No. 590 and adaptation to wartime conditions and the growth in revenue from the collection of 'military' personal income tax in municipalities) and a gradual increase in social expenditure, whereas 2024 was characterized by a steady rise in expenditure on social functions (primarily on education) against a backdrop of a decline in local municipalities' own budget revenues and increased dependence on transfers (Fig. 5a).

Incidentally, in 2023, the highest rates of growth in local budget expenditure were seen in social protection and healthcare, whilst expenditure on public order, security and the judicial system showed a notably high increase (Voznyak, 2024): compared to 2021, we see a 1.5-fold increase in expenditure on social protection. The reasons are clear, as Russia's full-scale war against Ukraine has altered the demographic structure, with an increase in the number of veterans, people with disabilities and IDPs requiring specialized social services. Despite the fact that in 2023 the Government reformed the state's social policy: new social services were introduced (CMU Resolution No. 248; 1050) for the most vulnerable sections of the population, and the approach to payments and comprehensive support for IDPs was changed to help them return to normal life and find work in the labor market (CMU Resolution No. 1709) and others, local budgets fund significant expenditure on social support for the population, including comprehensive support for those affected by the war (medical, rehabilitation, psychosocial, employment, etc.). Expenditure on education accounts for the largest share in the expenditure structure (at around 40% of total expenditure throughout the entire period under review, which in absolute terms ranges from 232 billion UAH to 284 billion UAH, depending on the year (Fig. 6), whereas the smallest share by functional classification belongs to expenditure on nature conservation (at 0.1-0.2%).

It should be noted that the first year of the war was a significant test of resilience for local self-government, which it passed with flying colors and demonstrated a

Municipal finances in Ukraine and the risks to their fiscal sustainability: the impact of war

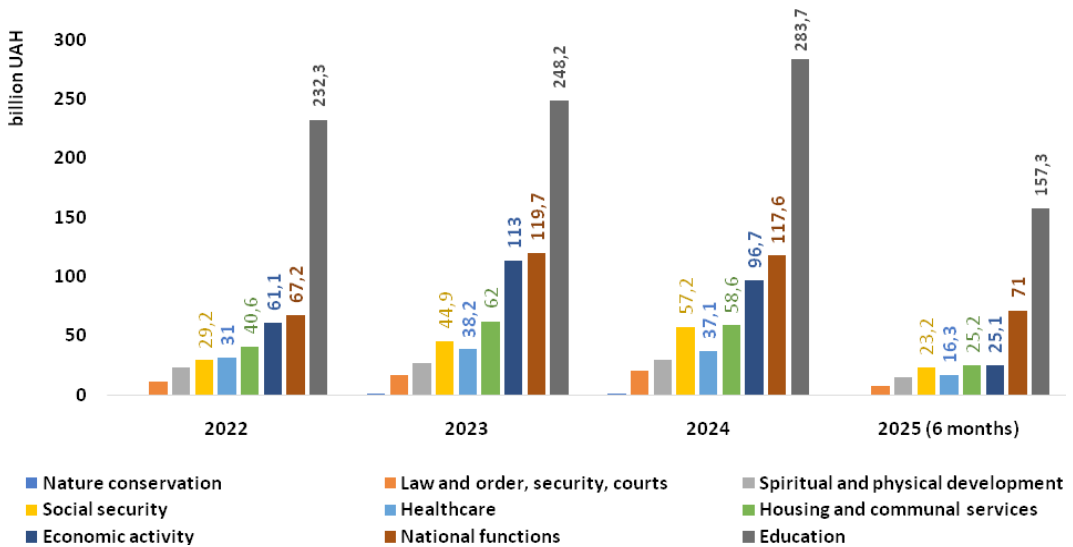


Fig. 6. Trends in local budget expenditure by sector in 2022-2025, UAH billion

Source: calculated based on data from URL: <https://openbudget.gov.ua>

high capacity to withstand external threats and challenges, and consequently to adapt to the situation that had arisen.

b) The reduction in capital expenditure and the ‘restructuring’ of current expenditure in local budgets is another trend that attracts attention in the context of our study. The war has had a negative impact on the financing of local government expenditure (as discussed above), and consequently on ensuring the financial stability of local municipalities (regardless of their distance from the front line). Current expenditure refers to the funding of the day-to-day operations of territorial municipalities (this is not about development), whereas capital expenditure is developmental in nature and is often interpreted as an investment in the municipality’s future. It is clear that the ratio of these types of expenditure within the overall structure of local budget expenditure has a varying impact on the municipality’s economic progress and its financial stability.

An analysis of the dynamics of current expenditure during the war indicates a sharp decline in 2022 in frontline municipalities and those that have suffered destruction, whilst a noticeable increase is recorded in municipalities in support regions and rear regions (Fig. 7a). It is clear that such changes are due to significant population displacement to safer areas.

If we analyze capital expenditure at a regional level across specific groups of local authorities, it must be noted that during the war, the greatest reduction occurred in 2022 in municipalities across all regions of Ukraine without exception, which is linked to legislative restrictions introduced at the start of the large-scale invasion and funding, primarily for the vital needs of residents (Fig. 7, b). To support this, we note that in frontline municipalities, growth rates in 2022 ranged from 3.3% in the Kherson region, 16.5% in the Kharkiv region, to 33.4% in the Zaporizhzhia region. The exception was Mykolaiv Oblast (which is also a frontline region), where the growth rate of capital expenditure in 2022 stood at 95.8%, which is linked with increased funding for emergency and restoration works. Municipalities in support and rear regions also experienced significant reductions in capital expenditure, though these were not as severe. In 2023, municipalities across all regions of Ukraine show active recovery, with the exception of those where hostilities are ongoing (Fig. 7b). The largest relative increase in capital expenditure in 2023 is recorded in the Chernihiv (+116.6%), Mykolaiv (+116.3%) and Zhytomyr

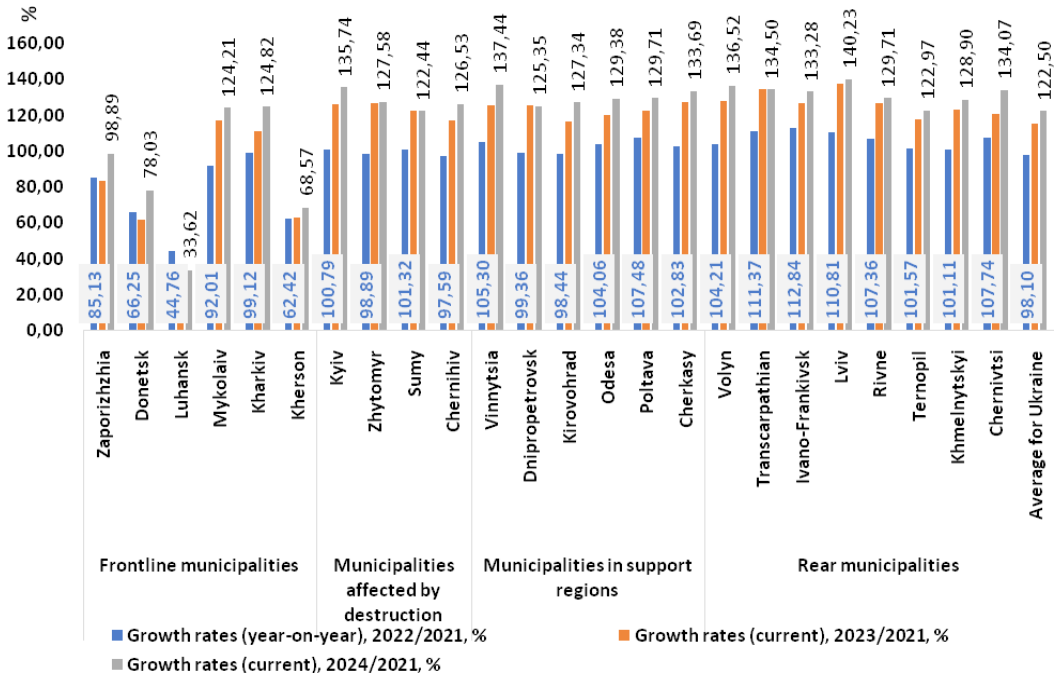


Fig. 7a. Trends in current expenditure of local budgets in Ukraine for 2021-2024: growth rates, %

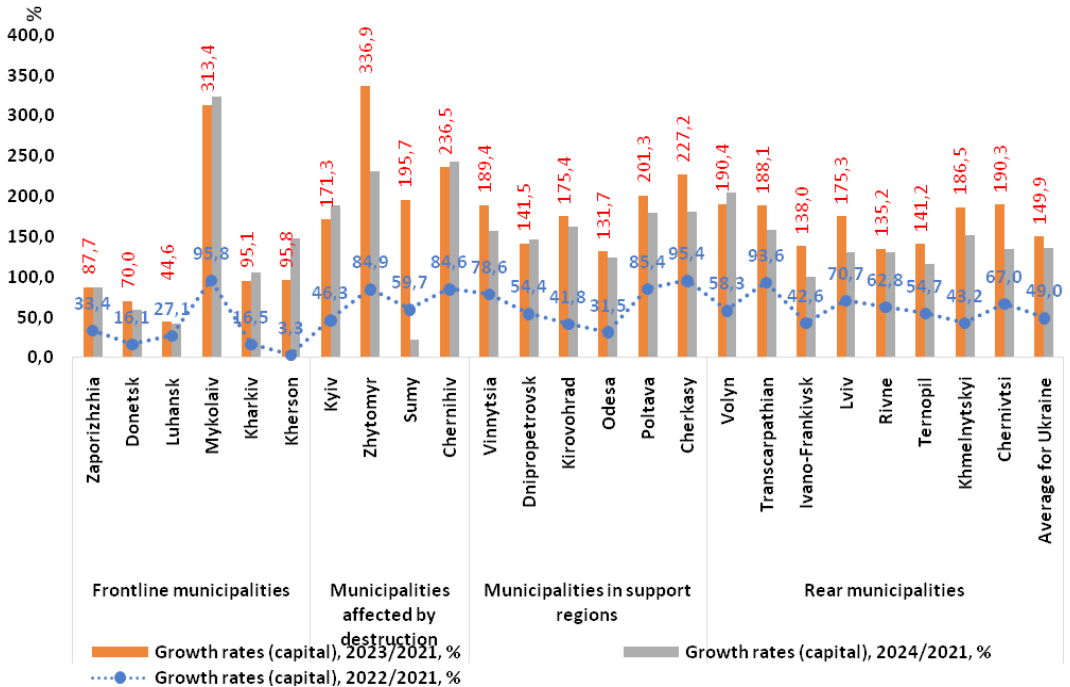


Fig. 7b. Dynamics of capital expenditure of local budgets in Ukraine for 2021-2024: growth rates, %

Source: calculated based on data from URL: <https://openbudget.gov.ua/analytics/expenses>

(+115.6%) regions. The largest absolute increase was recorded in the city of Kyiv (+6.4 billion UAH), municipalities in Lviv (+5.6 billion UAH) and Kyiv (5.2 billion UAH) regions, which is a positive trend compared to 2022. In 2024, municipalities

*Municipal finances in Ukraine and the risks to their fiscal sustainability:
the impact of war*

in frontline regions (namely Donetsk, Luhansk, Zaporizhzhia and Sumy regions) were unable to reach the 2021 level of capital expenditure funding. It is also true that in 2023–2024, many municipalities did not incur any capital expenditure.

When analysing the financial base of local authorities during the Russian-Ukrainian war of 2022-2025, one cannot overlook such a significant component of ensuring financial stability as international donor assistance (grants, international technical assistance, aid from the governments of supporting countries, etc., Table 3). The priority areas that local authorities identify as the most urgent for

Table 3
Dynamics of revenues to local authority budgets under aid programmes from the EU, international organizations and donor institutions for 2022-2025, in million UAH

Regions		2022	2023	2024	2025	2026	2027	2028
Frontline municipalities	Mykolaiv	0	0.0	2.4	1.2	6.9	0.5	0
	Kharkiv	0		0		0		465.8
	Zaporizhzhia	0		0		5.7	0.4	5.3
	Kherson	0		0		0		0
	Donetsk	0		0		0		0
	Luhansk	0		0		0		0
Municipalities affected by destruction	Kyiv	0		35.7	18.0	335.7	23.5	11
	Chernihiv	31.9	14.3	6.7	3.4	53.7	3.8	0.4
	Zhytomyr	0.8	0.4	44.9	22.7	237.5	16.6	1.99
	Sumy	0		10.6	5.4	14.5	1.0	0
Municipalities in the support regions	Kyiv	129.2	57.9	10	5.1	11.3	0.8	226.1
	Vinnytsia	3.3	1.5	2.6	1.3	44.9	3.1	0
	Cherkasy	0		0		22	1.5	0
	Kirovohrad	0		0		0		3.7
	Dnipropetrovsk	0		0		0		217.8
	Odessa	0		6.1	3.1	4.9	0.3	0.1
	Poltava	18.4	8.2	10.6	5.4	15.4	1.1	5.7
Rural municipalities	Chernivtsi	0		7.2	3.6	294.8	20.7	0.5
	Volyn	15	6.7	6.3	3.2	194.3	13.6	23.1
	Lviv	22.9	10.3	53	26.8	140.1	9.8	436.4
	Transcarpathian	0		1.2	0.6	5.7	0.4	2.1
	Temopil	0		0.5	0.3	29	2.0	0
	Rivne	0		0		0		0
	Ivano-Frankivsk	1.8	0.8	0.2	0.1	5.6	0.4	5.3
	Khmelnyskyi	0		0		5.4	0.4	0
Total	223.3	100.0	198.0	100.0	1427	100.0	1405.3	100.0

Source: calculated based on data from URL: <https://openbudget.gov.ua>

attracting external resources are: organizing shelters, providing housing for IDPs and local residents who have lost their homes, tackling unemployment, and meeting humanitarian needs. Donor support is targeted and aimed at: (1) improving the security situation and meeting urgent humanitarian needs (supporting vulnerable groups and people with disabilities, providing housing for IDPs and those who have lost their homes, and providing assistance for specific needs at the request of municipalities); (2) addressing economic challenges (providing municipalities with alternative energy sources, stimulating their economic development, and creating jobs); (3) direct support for local budgets (Voznyak, 2023).

The data in Table 3 show that, during the war, the largest amounts of funding allocated to local authority budgets went to municipalities that had suffered destruction and where Ukrainian control had been restored (Kyiv, Chernihiv, Zhytomyr and Sumy regions). It is logical that these funds were directed towards the restoration of critical infrastructure, support for internally displaced persons, the provision of social services, and so on. It is also noteworthy that significant amounts of international aid were received by municipalities in the rear areas of Lviv, Volyn and Chernivtsi regions, which is most likely a result of the intensification of grant activities by local self-government bodies.

Despite a significant increase in the volume of financial resources from international organizations and grant funds for Ukrainian municipalities, the conditions under which these funds can be obtained are quite complex; however, both representatives of programme coordination centers and state and regional authorities (relevant ministries, regional state administrations) are working to overcome these difficulties. The fact is that: a) the majority of these funds are provided to civil society organizations rather than directly to local authorities. In most municipalities in Ukraine, the level of civic engagement among residents is low, due to historical factors in the development of society, and the system of relations between local authorities and civil society organizations is still in its infancy; b) the insufficient level of qualification among local government staff and the absence of a project manager position in most local councils prevents them from fully utilizing the available funding; Regional authorities are working to resolve these issues by offering support to local budgets in securing funds (Voznyak, 2023).

Thus, summarizing the results of the analytical study, we can identify the risks of a breach of municipalities' financial stability (Table 4) and draw the following conclusions and generalizations.

Frontline municipalities have been operating in a state of 'chronic financial instability' throughout the period under review; for certain municipalities (for example, in the Mykolaiv region), we observe a piecemeal adaptation to shock conditions, without a restoration of financial independence. We may assume that, in the absence of effective instruments to strengthen the financial stability of local authorities in this group, they will remain financially insolvent in the post-war period. Among the risks to financial stability, the following should be highlighted: a structural 'narrowing' of the revenue base due to the loss of industrial potential; excessive dependence on personal income tax (which exacerbates the fiscal vulnerability of municipalities and does not contribute to economic recovery) and transfers from the state budget; investment stagnation (minimal capital expenditure is, for the most part, of an 'emergency-recovery' nature, and therefore not development-oriented).

Despite a noticeable recovery, *municipalities that have suffered destruction* cannot yet be described as financially resilient. Thus, during the period under review, municipalities in four regions demonstrated the capacity for financial recovery; however, this resilience is overly dependent on external resources. We have identified the following risks to financial sustainability: 'donor dependency', which cannot be transformed into revenue-generating potential; an excessive burden on the social sector, and consequently rapidly rising current expenditure, which limits the ability to finance their own progress. Another significant risk for this group of municipalities is high vulnerability to security shocks due to their proximity to the combat zone (although we understand that, in principle, there are no safe places in Ukraine today).

When it comes to *municipalities in support regions*, we can cautiously note a relative model of adaptation in their financial stability, manifested in the parallel recovery of the revenue base and tax capacity, although high vulnerability remains both to central government decisions and to the protracted nature of the war. Among

the risks to financial stability, we highlight: excessive strain on social infrastructure (rising current expenditure without a corresponding expansion of the revenue base); weak revival of entrepreneurial activity (resulting in uneven business profitability); limited investment resources and changes to budgetary rules and procedures (for example, the withdrawal of personal income tax mid-budget year).

Rural municipalities can be characterized as having the greatest adaptive financial resilience, although this does not mean that the socio-economic processes taking place automatically contribute to strengthening financial resilience. Risks to financial stability include: the ‘illusion of financial well-being’ (an increase in local budget revenues not due to structural modernization of the economy, but rather the consequences of business and population relocation); the ‘seasonality of the tax base’ (meaning that some taxpayers are mobile and may leave the municipalities once the active phase of the war ends, hence the need to improve inter-budgetary equalization mechanisms); and low institutional capacity to utilize donor funds.

Table 4
Risks to the financial stability of Ukraine’s local authorities in 2022-2025

Type of municipality	Risks to financial stability
Frontline municipalities	Structural loss of revenue base due to the destruction of the economy and infrastructure and population migration Critical dependence on personal income tax, in particular ‘military personal income tax’ A sharp increase in dependence on transfers and a loss of budgetary autonomy Hronic underfunding of capital (development) expenditure Investment stagnation Demographic narrowing of the tax base and the risk of long-term financial insolvency
Municipalities affected by destruction	Revenue recovery whilst remaining highly dependent on transfers and donor funds The dominance of current social expenditure over development expenditure ‘Donor dependency’ without building up their own revenue-generating capacity Vulnerability to repeated security and economic shocks
Municipalities in support regions	Hidden dependence on transfers despite growing own revenues Overburdening of social and municipal infrastructure due to the growth in the IDP population Uneven distribution of corporate income tax revenues Limited own investment resources for financing capital expenditure Vulnerability to changes in state financial and budgetary policy
Rural municipalities	The temporary nature of revenue growth linked to the relocation of businesses and the population The risk of losing part of the tax base following a change in the security situation An imbalance between the growth of current expenditure and the generation of long-term revenue High intra-regional asymmetry in the financial capacity of municipalities Insufficient institutional capacity to utilise donor funds

Source: compiled by the authors.

Conclusions and Directions for Further Research

Based on the proposed methodological approach, this study provides an analysis of the financial condition of Ukrainian municipalities across four groups (frontline municipalities; municipalities affected by destruction; municipalities in support regions; and rear municipalities) over the period 2022-2025. This allows for several key conclusions.

The war has led to a decline in local budget revenues and, consequently, has intensified interregional disparities in municipal fiscal capacity. Fiscal capacity has

become strongly contingent upon the security context: frontline municipalities have experienced a prolonged decline in revenues due to infrastructure destruction, loss of economic potential, and population outflows, whereas rear municipalities and those located in support regions have demonstrated steady growth in own-source revenues, driven by business relocation and population movements. At the same time, the structure of local budget revenues remains characterized by an excessive dependence on personal income tax (PIT), whose dominant role generates risks of fiscal vulnerability.

Another important finding is that municipal fiscal resilience is highly sensitive to institutional changes. In particular, the reallocation of PIT revenues to the state budget at the end of 2023 has increased the risk of growing dependence on intergovernmental transfers. Despite intensifying crisis conditions, local fiscal policy has demonstrated a notable degree of adaptability, with municipalities managing to ensure revenue performance and the continued provision of essential public services.

The risks to municipal fiscal resilience exhibit a pronounced spatial and security-related dimension. Their structure, depth, and duration vary significantly depending on the type of municipality, underscoring the need for differentiated policy approaches to strengthening fiscal resilience in both wartime and post-war contexts. These issues, along with the analytical findings presented in this study, will form the basis for further research aimed at developing effective instruments to enhance the fiscal resilience of municipalities.

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Возняк Г. В., Сороковий Д. О., Голинський Ю. О. Фінанси територіальних громад України та ризики порушення їхньої стійкості: вплив війни

Мета. Метою статті є проблемно-орієнтовний аналіз стану фінансів територіальних громад України та виявлення ризиків порушення їхньої стійкості в умовах російсько-української війни.

Методологія. Методологічну основу дослідження формували методи статистичного, структурного та порівняльного аналізу з використанням офіційних відкритих даних. Часовий період спостереження становив 2022-2025 рр., що забезпечило відносну однорідність вибірки.

Результати. Проведений аналіз дохідної бази місцевих бюджетів, оцінювання зміни у структурі видатків і міжбюджетних трансфертів дали змогу ідентифікувати ризики порушення фінансової стійкості територіальних громад України в умовах війни. Установлено, що війна спричинила скорочення доходів місцевих бюджетів на початковому етапі повномасштабного вторгнення та істотно посилила асиметрії фінансової спроможності громад. Найбільших втрат зазнали прифронтові громади, де руйнування економічного потенціалу, міграція населення та втрата інфраструктури зумовили тривале падіння власних доходів. Водночас тиллові громади демонстрували зростання доходів завдяки релокації бізнесу та переміщенню трудових ресурсів. Показано, що структура доходів місцевих бюджетів залишається стабільною та характеризується домінуванням податку на доходи фізичних осіб, значна частка якого у 2022-2023 рр. була забезпечена оподаткуванням доходів військовослужбовців. Це обумовлює додаткові ризики фіскальної вразливості громад і залежності від одного джерела надходжень. Установлено зростання трансфертної залежності місцевих бюджетів і поглиблення диференціації фінансової спроможності територіальних громад, що своєю чергою обмежує можливості окремих громад гарантувати належний рівень публічних послуг без зовнішньої підтримки.

Оригінальність. Поглиблено теоретичні засади дослідження фінансової стійкості територіальних громад через систематизацію ризиків її порушення. Показано, що вони мають просторовий та безпековий характер.

Практична цінність. Практичне значення отриманих результатів вбачається в можливості використання їх для напрацювання підходів до удосконалення механізмів бюджетного вирівнювання, а також під час розроблення заходів щодо диверсифікації дохідної бази місцевих бюджетів і підтримки громад, що зазнали найбільших економічних втрат унаслідок війни.

Ключові слова: регіональний розвиток, інноваційна екосистема, територіальна громада, людський капітал, інноваційний розвиток, мережева взаємодія, конкурентоспроможність.

Возняк Галина Василівна – доктор економічних наук, професор, провідний науковий співробітник відділу регіональної фінансової політики ДУ «Інститут регіональних досліджень імені М. І. Долишнього НАН України» (e-mail: gvoznyak@gmail.com, ORCID ID: <https://orcid.org/0000-0003-2001-0516>).
Voznyak Halyna Vasyliivna – Dr.Sci. (Econ.), Prof., Leading Researcher of the Department of regional financial policy of the Dolishniy Institute of Regional Research of NAS of Ukraine.

Сороковий Данило Олегович – аспірант ДУ «Інститут регіональних досліджень імені М. І. Долишнього НАН України» (e-mail: danylo.sorokovyi@gmail.com, ORCID ID: <https://orcid.org/0009-0001-3954-1854>).
Sorokovyy Danylo Olehovych – Postgraduate of the Dolishniy Institute of Regional Research of NAS of Ukraine.

Голинський Юрій Олегович – кандидат економічних наук, доцент, доцент кафедри фінансового менеджменту Львівського національного університету імені Івана Франка, докторант відділу ... ДУ «Інститут регіональних досліджень імені М. І. Долишнього НАН України» (e-mail: yuriy.holynskyy@gmail.com, ORCID ID: <https://orcid.org/0000-0003-2724-5027>).

Holynskyy Yuriy Olehovych – Ph.D. (Econ.), Assoc. Prof., Associate Professor of the Department of financial management of the Ivan Franko National University of Lviv; Doctoral Postgraduate of the Department of ... of the Dolishniy Institute of Regional Research of NAS of Ukraine.

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