

Ihor Legkostup*Department of Finance and Credit,**Yuriy Fedkovych Chernivtsi National University, Chernivtsi, Ukraine (corresponding author)**E-mail: igor.legkostup@gmail.com**ORCID: <https://orcid.org/0000-0001-7839-874X>***Svitlana Bosovyk***Yuriy Fedkovych Chernivtsi National University, Chernivtsi, Ukraine**E-mail: bosovyk.svitlana@chnu.edu.ua**ORCID: <https://orcid.org/0009-0001-1524-1902>*

Public Debt of Ukraine: Dynamics, Structure and Risks to Financial Stability

Abstract

The article *investigated* the current state of Ukraine's public debt, its economic nature, structure and management features under martial law and economic instability. *The object* of the study is the public debt of Ukraine as a component of the public financial system and the financial stability of the state. *The subject* of the study is the economic relations between the state and creditors arising in the process of formation, servicing and repayment of Ukraine's public debt, as well as debt risks in the context of financial stability. *The methodological basis* of the study was formed by the following key methods: logical, systemic, abstraction and generalization – when determining the theoretical foundations of public debt and its management; comparative, statistical, analytical, and graphical – when analyzing the dynamics and structure of Ukraine's public debt; analysis and synthesis, and forecasting – when analyzing debt risks and identifying modern methods of public debt management to overcome them. *The purpose* of the article is to investigate the theoretical aspects of public debt, analyze its state and dynamics, and determine the key areas of debt management to ensure financial stability under socio-economic challenges. *Practical conclusions.* Enhancing public debt management through modern methods is a prerequisite for strengthening the state's financial security, ensuring sustainable economic development, and raising the standard of living of citizens. Implementing these measures will help shape a transparent and effective debt policy capable of swiftly responding to contemporary challenges and risks. This will be facilitated by modern debt management methods and the digitalization of these processes, which enhance efficiency, streamline operations, and mitigate the risks of the negative impact of the human factor. Public debt is a necessary yet risky instrument of financial policy. A rational debt strategy must ensure a balance between the state's financing and the preservation of macroeconomic stability, while also taking into account the interests of all citizens. Effective public debt management must be based on the principles of transparency and accountability, which will enhance public and investor confidence to overcome current challenges and foster further economic growth. *Originality/value.* The uncovered debt risks and proposed practical approaches to public debt management will enhance debt policy and increase the efficiency and rationality of using borrowed funds.

DOI: <https://doi.org/10.30525/2500-946X/2026-2-11>**1 Introduction**

Under the current conditions of the full-scale war for Ukrainian statehood and an acute shortage of public revenues, public debt serves as one of the primary instruments for maintaining economic stability in Ukraine and financing the state budget deficit. Public debt represents the totality of the state's debt obligations to creditors, incurred through government borrowing to ensure the execution of its functions

and duties when tax and other domestic revenues are insufficient.

The significance of this study is driven by the crucial role of public debt in the implementation of the state's financial policy. Securing the necessary borrowings offsets the deficit of public funds; however, it poses additional risks to financial security and necessitates effective debt regulation. This is particularly relevant at present, amidst the full-scale war in Ukraine, when a significant share of budget expenditures is

Keywords

public debt, debt risks, public debt management methods, debt servicing, debt dynamics and structure, financial resources, financial sustainability, debt policy

JEL: H39, H60, H63, H69, H81

This is an Open Access article, distributed under the terms of the Creative Commons Attribution CC BY 4.0

directed toward national defense, the restoration of destroyed infrastructure, and critical social spending.

Various aspects of Ukraine's public debt and corresponding management methodologies have been explored by researchers, including T. Bogdan, A. Buriak, I. Hnydiuk, I. Lunina, A. Nikitishyna, Ye. Podakov, and I. Chuhunova. The novelty of this research lies in the systematization of debt risks and the identification of modern methods to mitigate them in both the short and long term.

The tasks of the study are to reveal the economic essence of public debt and explore theoretical approaches to its management; to analyze the dynamics and structure of Ukraine's public debt; to identify debt risks and substantiate directions for enhancing the efficiency of public debt management.

The article includes an introduction, three main sections – which explore the theoretical dimensions of public debt management, evaluate its dynamics and structure, and identify debt risks alongside proposed to address them – as well as the research conclusions and research findings.

2. Theoretical Approaches to Defining the Essence of Public Debt and Its Management

Public debt constitutes a specific amount of outstanding that the state is obligated to repay to its creditors, who may be either residents or non-residents of Ukraine.

T.P. Vakhnenko defined public debt as «the debt of the country in the process of the formation and utilization of additional funds at the expense of available funds of individuals and legal entities, as well as foreign countries» (Vakhnenko, 2009).

O.V. Rozhko defined public debt as «the total amount of public debt which consist of all assumed and outstanding debt obligations of the state, including those that come into effect due to issued loan guarantees, or obligations arising on the basis of law or a contract» (Rozhko, 2005).

In our opinion, public debt is the total debt obligations of the state to domestic and foreign creditors, arising from government borrowing to ensure the execution of its functions and tasks when tax and other own revenues are insufficient.

Effective public debt management guarantees the financial security of the country and is crucial for interacting with international financial markets. Since attracting borrowings from external creditors has its advantages, such as obtaining the necessary resources, there are also disadvantages – namely, a significant dependence on these creditors.

The role of public debt in the system of financial relations lies in raising funds from the financial market to execute state functions, regardless of the state of the economy. In other words, during economic

crises, government borrowing helps support aggregate demand and fund crucial projects.

Traditionally, public debt is divided into domestic and external. If we look at the government's debt to creditors inside the country, it is domestic debt. In recent years, the main form of this debt in Ukraine is Domestic Government Bonds (OVDPs). On the other hand, the state's liability to foreign creditors – namely international companies, economic organizations, and investors, is external public debt.

In addition, public debt can be denominated in various currencies, namely in domestic or foreign currency. Debt in the domestic currency is considered less risky, as there is no dependence on the foreign exchange market and exchange rates. Conversely, foreign currency debt arises from borrowing financial resources from other countries. The primary disadvantage of this debt is that the loan amount automatically increases when the domestic currency depreciates.

Public debt management is a key component of the state's financial policy, as macroeconomic stability and the state of the financial sphere directly depend on this process. Furthermore, public debt is not an entirely negative phenomenon, because its disadvantages arise from ineffective management. However, if raised resources are managed correctly, using borrowed funds will bring benefits to the state. Public debt management is linked to the attraction, servicing, and repayment of liabilities, including minimizing risks and the optimal use of borrowings.

There are several approaches that help manage public debt rationally, including:

- a) minimizing the debt size and preventing it from growing, that is, limiting state borrowing;
- b) using public debt as an instrument of macroeconomic regulation, which is reflected in stimulating aggregate demand;
- c) ensuring debt sustainability, the essence of this approach consists in maintaining debt at a safe level for the country, that is, the state is able to return and service it. Most countries with a developed market economy use this exact approach, which is also recommended by the IMF and the World Bank;
- d) forming a public debt management strategy for a long-term period.

If we consider the situation in our country, public debt management is implemented using several approaches, that is, different methods are taken into account. Such as: ensuring debt sustainability (keeping debt at a safe level), though of course, in recent years the situation has worsened significantly given the full-scale war and economic crises. In addition, there is an approach to strategic debt planning that helps make rational decisions and minimize risks.

Therefore, for Ukraine, effective management of public debt is an important condition for financial stability and the growth of both the economy and the state as a whole. The stability of the whole financial

system depends on a correctly chosen approach, especially in such a difficult period that our country is going through right now.

3 Assessment of the Dynamics and Structure of Ukraine’s Public Debt

Under current conditions, assessing public debt indicators is an important component of financial security and stable economic development. Analysing the dynamics and structure of Ukraine’s public debt makes it possible to evaluate the level of the debt burden on the economy and the state budget, as well as to determine the ratio of domestic to external borrowing, which are important indicators for assessing the country’s macroeconomic situation.

The ratio of public debt to GDP is particularly important, since this indicator clearly shows what share of the product generated is accounted for by public debt. The higher this indicator, the greater the burden on the state budget and, accordingly, the greater the need for funds to cover and service the debt.

It is therefore worth examining this ratio and its dynamics over the most recent period in Table 1.

The analysis of the public-debt-to-GDP ratio reveals an upward trend in the indicator throughout this period, which is ultimately a negative finding. An increasing debt burden reduces spending on important areas of the state because of the growing need for debt servicing. A particularly sharp rise in the indicator, from 48.9% to 78.4%, occurred in 2022 following the start of the full-scale invasion of Ukraine and the increase in defence spending. Overall, the share of Ukraine’s public debt in its GDP grew by 50 percentage points over five years and will exceed 100% in 2026.

To better understand the current state of Ukraine’s public debt, it is appropriate to analyse its structure for 2025. Figure 1 shows the ratio of domestic to external public debt, which makes it possible to assess the degree to which the country’s economy depends on external financial resources. Analysing the debt structure allows the main sources of financing for state needs to be identified and the possible risks to the country’s financial stability to be assessed.

We can see that in 2025 the share of external debt exceeded that of domestic debt (77% versus

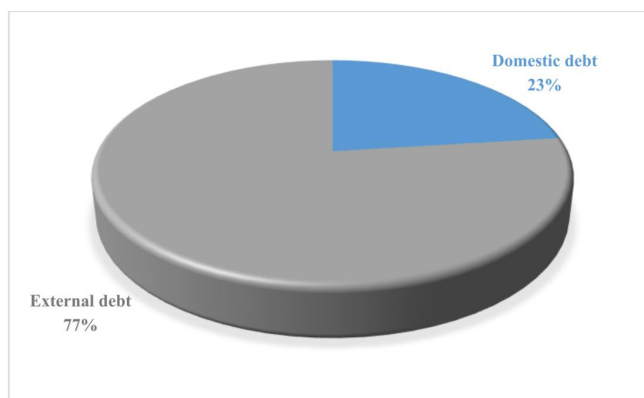


FIGURE 1. Structure of Ukraine’s Public Debt in 2025 (State budget web portal for citizens, 2026)

23%), which is explained by the active attraction of international capital after the start of the full-scale war. At the end of 2021, this ratio stood at 58% versus 42%. Of course, attracting substantial volumes of international financial resources is not a negative decision provided that the funds received are used rationally and for their intended purpose. In that case, such borrowing becomes an important instrument for the functioning of the state economy and its stabilisation during crisis periods; however, it is important to minimise risks in order to ensure financial security.

The debt burden increased especially after the start of the full-scale invasion and the onset of the crisis in the economy: the sharp rise in expenditure and the shortage of domestic resources require international financial support. Of course, domestic debt also plays a key role; it is formed through domestic government bonds (OVDPs), which are issued and placed on the domestic securities market.

The general conclusions are that, despite the difficult economic situation and the shortage of domestic human and financial resources, debt policy should nevertheless limit the growth of borrowing and channel it toward stimulating growth in domestic GDP. The ideas of Paul Samuelson are also relevant here; he held that public debt is not an evil if it is used to stabilise the economy. Developing the domestic securities market and reducing currency risks will help ensure financial stability over the long term.

4 Debt Risks and the Use of Modern Public Debt Management Methods to Address them

Public debt management is an important process within the state’s financial policy, since it affects, above all, the macroeconomic environment and, of course, the confidence of the public and investors. Public debt management is a system of measures required to attract financial resources and, subsequently, to service and repay debt obligations. All of this requires

TABLE 1 Ratio of Public Debt to GDP, 2021–2025

Year	Public debt, UAH million	GDP, UAH million	Debt/GDP, %
2021	2 671 828	5 459 574	48.9
2022	4 071 683	5 191 028	78.4
2023	5 519 484	6 537 825	84.4
2024	6 980 965	7 658 659	91.1
2025	9 042 678	8 931 194	98.8

Source: (Public debt of Ukraine, 2026)

a deep understanding of the processes in order to avoid risks or significantly minimise them.

Excessive debt obligations create serious problems for economic stability and increase dependence on both international and domestic creditors. For Ukraine, this problem became pressing after the start of the full-scale invasion, since the debt exceeded 100% of GDP and creates excessive pressure on state budget expenditure (Kapustianska, 2026).

An important problem for the budget is, of course, the high cost of debt servicing due to elevated risks. At present, particularly because of political instability, limited domestic resources compel investors to demand high interest rates. Ultimately, a so-called “vicious circle” of state debt servicing is formed: new borrowing is needed, which later must also be repaid with interest.

The insufficient development of the domestic government securities market is one of the main problems. The limited knowledge and participation of the population narrow the state’s opportunities to attract stable financial resources, since the main buyers of domestic government bonds (OVDPs) remain banks and other financial institutions.

Another important problem is the insufficient transparency of, and trust in, the government’s debt policy, since effective debt management is impossible without open information about credit terms, servicing costs and the directions in which borrowing is used. As a result, if investors lack such basic information, they lose confidence in public finances and the country’s government.

In addition, inflationary risks also arise, since in cases of budget deficit and substantial debt the state may resort to additional money issuance (National Bank of Ukraine, 2026). However, increasing the money supply without a corresponding rise in gross domestic product (GDP) leads to the depreciation of the national currency and, of course, to higher prices for goods and services.

Thus, the war considerably complicates the process of public debt management, and at the same time other problems arise that call for an effective debt policy and the rational use of international financial assistance. Ultimately, borrowing is important and necessary at present so that the state can continue to finance its core needs. Ukraine is currently managing this, but a scientifically grounded development strategy would help improve the debt management situation.

Effective public debt management is a prerequisite for ensuring macroeconomic stability and financial security. Amid a growing budget deficit, inflationary processes and substantial military expenditure, forming a rational and effective debt policy is highly relevant. The prospects for improving the public debt management system are linked to ensuring debt sustainability, minimising risks and increasing the efficiency with which borrowed resources are used.

Balancing the ratio of domestic to external borrowing is a necessary task for reducing the volume of public debt; it allows currency risks and dependence on international financial assistance to be minimised. Greater reliance on domestic resources would increase the state’s financial independence and, of course, reduce the influence of external creditors, which is a positive aspect in this situation.

Restructuring expensive obligations may become an important instrument – that is, changing the terms of earlier loans in order to reduce the debt burden and the cost of debt servicing, with the aim of improving debt policy. An improvement in Ukraine’s macroeconomic situation (GDP growth, higher labour productivity and employment, lower inflation, and so on) and a reduction in political and financial risks would help lower the overall cost of borrowing. Through negotiations with creditors, it is possible to postpone loan repayment deadlines, reduce interest rates, or even write off part of the debt obligations.

In addition, it is worth increasing the efficiency and rationality with which borrowed funds are used, since it is necessary not only to cover the deficit that has arisen but also to finance development in order to ensure economic growth. Investing in the development of important areas of the state would lead to an increase in the number of jobs and, consequently, growth in tax revenues. Government borrowing plays an important role during various economic crises, and using it correctly is a guarantee of the state’s financial security.

Furthermore, in light of current events, wartime challenges and future post-war recovery, international grants, aid or concessional loans are needed to reduce the debt burden on Ukraine’s economy and budget (Overview: Ukraine, 2026). After this difficult period ends, the priority need will be the recovery and reconstruction of all spheres. The priority for channelling funds should be investment activity, which is necessary to improve the country’s solvency and restore its ability to provide itself with financial resources, and the tax base should also be broadened.

A promising and currently relevant direction is the digitalisation of debt management processes. The ability to automate the recording of borrowing, monitor risks and forecast future payments is an important necessity that helps increase the transparency of debt operations and the number of investors, primarily among the population.

Thus, the prospects for managing Ukraine’s public debt are linked to improving debt policy, partially restructuring the debt with creditors’ consent, developing the domestic securities market, increasing transparency and using funds rationally. The effective implementation of these processes would strengthen financial stability and reduce risks, both currency-related and those of a debt trap. Government borrowing should be regarded not merely as a way to quickly close the budget deficit, but above all as an instrument of development and an opportunity to help the country

improve its solvency. It is precisely this approach that would allow the state to develop steadily, avoid financial dependence on other creditors, and become a strong country with a market economy.

5 Conclusions

1. As a result of studying the current state of Ukraine's public debt, it was found that it is an important element of the state's financial system and an instrument of economic development. Above all, its formation is associated with the budget deficit, with ensuring the performance of the state's core functions, and with maintaining stability despite internal and external risks.

2. Government borrowing serves as a source of financing for public services, stimulating investment and supporting economic development; however, the excessive accumulation of debt obligations creates threats to the state's financial security and leads to debt dependence. It also limits the state's financial autonomy in making important strategic decisions, since the influence of creditors grows and it becomes necessary to adapt to the terms of agreements. This is precisely why it is important to maintain an optimal level of debt that the state budget can service without risks and challenges, while borrowing also contributes to development.

3. The analysis of debt dynamics and burden showed that the share of Ukraine's public debt in its

GDP grew by 50 percentage points during the full-scale invasion, from 48,9 % in 2021 to 98,9 % in 2025. In 2025, the share of external debt was 77 %, which creates significant currency risks, since in the event of a hryvnia devaluation the hryvnia-denominated payments from the state budget would increase.

4. Debt risks that threaten Ukraine's financial stability were identified; the main ones are an excessive debt burden on the country's budget, the high cost of borrowing, dependence on external creditors, and the limited ability to provide the economy with resources independently. These aspects reduce the country's financial stability and complicate the development of a strong market economy.

5. On the basis of the analysis conducted, promising directions for public debt management were identified, and modern methods for ensuring Ukraine's financial stability were proposed. These include reducing the share of foreign-currency obligations (in order to reduce currency risks and dependence on external creditors), developing the domestic securities market, partially restructuring the debt with creditors' consent (postponing loan repayment deadlines, reducing interest rates, or even writing off part of the debt obligations), increasing the transparency of debt policy and, of course, using borrowed resources effectively and rationally. In addition, important strategic directions for reducing the debt burden are attracting international grant assistance and broadening the tax base, which would result in increased tax revenues to the budget.

References:

- [1] Vakhnenko, T. P. (2009). Peculiarities of public debt formation and management of its components during the financial crisis. *Finances of Ukraine*, 6, 14–28.
- [2] Rozhko, O.V. (2005). The economic nature and significance of state credit in the economy of Ukraine. *Banking*, 4, 81–89.
- [3] Public debt of Ukraine (2026). Minfin. <https://index.minfin.com.ua/ua/finance/debtgov/>
- [4] State budget web portal for citizens (2026). Open budget. <https://openbudget.gov.ua/>
- [5] Kapustianska, I. (2026). Ministry of Finance: Ukraine's public debt increased by almost 30% in 2025. LB.ua. https://lb.ua/economics/2026/02/02/720143_minfin_derzhborg_ukrayini_2025.html
- [6] National Bank of Ukraine (2026). <https://bank.gov.ua>
- [7] Overview: Ukraine (2026). *World Bank Group*. https://www.worldbank.org/ext/uk/country/ukraine?utm_source=chatgpt.com#tab-1

Received on: 28th of April, 2026

Accepted on: 05th of June, 2026

Published on: 30th of June, 2026