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FISCAL POLICY UNDER CONDITIONS OF GLOBAL RISKS AND ECONOMIC UNCERTAINTY

Kachula S.V. / Качула С.В.
d.e.s., prof./д.е.н., проф.
ORCID ID: 0000-0003-2540-862X
Dnipro State Agrarian and Economic University,
Dnipro,25, S. Yefremova str.,49000

Abstract. *Defining the place and role of budgetary policy under conditions of global risks and economic uncertainty has become increasingly relevant, as contemporary challenges – from pandemics to geopolitical conflicts – fundamentally transform traditional approaches to public finance formation. The article analyzes the key elements of budget policy that enhance the state's fiscal resilience, including scenario-based planning, revenue mobilization, expenditure prioritization, public debt management, consideration of external financial flows, and reserve fund utilization. It highlights how global uncertainty influences budgetary decision-making and identifies the instruments that have become critical for adapting public finance systems to emerging risks.*

Key words: *budget policy, fiscal resilience, global risks, economic uncertainty, public debt, scenario-based budgeting, external assistance.*

Анотація. *Визначення місця та ролі бюджетної політики в умовах глобальних ризиків та економічної невизначеності набуває надзвичайної актуальності, адже сучасні виклики – від пандемій до геополітичних конфліктів – радикально змінюють традиційні підходи до формування державних фінансів. У статті аналізуються ключові елементи бюджетної політики, що дозволяють посилити фіскальну стійкість держави, зокрема сценарне планування, мобілізація доходів, пріоритетність видатків, управління державним боргом, врахування зовнішніх фінансових потоків та резервних фондів. Висвітлено, як глобальна невизначеність впливає на бюджетні рішення та які інструменти стають критичними для адаптації державних фінансів до нових ризиків.*

Ключові слова: *бюджетна політика, фіскальна стійкість, глобальні ризики, економічна невизначеність, державний борг, сценарне бюджетування, зовнішня допомога.*

Introduction.

The modern global economy is characterized by a heightened level of uncertainty: geopolitical conflicts, economic shocks, rapid technological transformations, and climate change collectively shape a new environment for budgetary policy. The risks to forecasting remain “exceptionally high,” making contingency planning for adverse scenarios a crucial requirement. Budgetary policy, which traditionally relied on the relative stability of revenues, an efficient forecasting environment, and predictable expenditures, now operates under conditions where these fundamental premises are disrupted. It has become essential for states not only to design budgets reflecting the current situation but also to ensure flexibility, reserves, and adaptability to risk-induced losses.

For instance, in Ukraine, during the period of martial law, more than half of the state budget has been allocated to defense, while other expenditures remain under significant pressure or face underfunding. The analysis of budget policy under such conditions requires a comprehensive approach encompassing revenue mobilization, public debt management, and the creation of strategic reserves. Within this context, a series of questions arise: how should a state plan its budget amid persistent risks; how can strategic and tactical goals be aligned; and how can financial resilience be sustained? The article highlights the specific features of budget policy under global uncertainty, proposes adaptive instruments, and substantiates priorities aimed at strengthening fiscal sustainability.

Main text.

Under current conditions, budgetary policy must respond to both internal and external risks that increasingly move from the category of potential to that of actual threats. Among these risks are geopolitical conflicts, global economic downturns, fluctuations in energy prices, climate change, pandemics, disruptions of supply chains, and financial instability.

In such an environment, traditional budgeting approaches – revenue forecasting, expenditure planning, and guaranteed social spending – may prove insufficient or require significant modification. Budget policy must take into account two key directions of adaptation: scenario-based planning (including worst-case scenarios) and the creation of fiscal space for maneuver – through reserves, contingency funds, and mobilization of additional resources. Under conditions of global uncertainty, governments are compelled to consider not a single "baseline" budget but a set of alternative development scenarios – optimistic, baseline, and pessimistic. This approach enhances the flexibility of public finances and enables faster responses to shocks, making the formulation of multiple scenarios one of the critical prerequisites for macro-financial stability.

The revenue side of the budget is highly sensitive to uncertainty: economic growth may fall below projections, tax revenues may decline, and access to external assistance or credit may become constrained. For instance, in 2024, Ukraine's domestic revenues in the general government sector covered only about 54% of expenditures [1]. Therefore, budget policy must anticipate and actively employ supplementary financing sources such as reserve funds, grants, external aid, and the mobilization of internal resources. For example, the share of international assistance in Ukraine's 2024 state budget accounted for more than 28% of total revenues [1].

On the other hand, the expenditure side of the budget is also under pressure: the state must finance not only routine expenditures – such as social programs, infrastructure, education, and healthcare – but also costs associated with risk response, including defense, emergency management, and energy security. Under these conditions, the efficiency of public spending becomes critically important. Budget policy should incorporate a clear system of priorities – identifying which expenditures are essential (for instance, national security and vital public services) and which can be temporarily reduced or optimized.

At the same time, public debt management becomes a key concern: under uncertainty, risks related to debt servicing, access to financing, and rising borrowing costs tend to intensify. Therefore, it is crucial to ensure sufficient fiscal resources without excessive reliance on public borrowing, while also accounting for the increasing costs of debt servicing [2].

Another essential instrument of budget policy in the context of global risks is enhancing the transparency of the budget process, which helps reduce uncertainty and strengthen the confidence of investors and international donors. Research indicates that during emergencies (such as wars or pandemics), emergency budgeting and fiscal transparency become especially significant for effective public financial management [3].

In the broader context of global risks, policy coordination is also vital: budget policy does not operate in isolation but interacts with monetary, external, and structural policies. For example, the increase in defense spending across many European countries has been closely linked to budget policy adjustments and has emerged as a direct response to escalating geopolitical risks [4].

Given these global challenges, governments must establish and maintain fiscal buffers and “safety nets”, such as stabilization funds, reserve assets, emergency financing mechanisms, and frameworks for rapid expenditure adjustments. Such reserves mitigate the negative impact of shocks and enable swift fiscal responses. Equally important is the diversification of financing sources: dependence on a single major external creditor or aid program heightens vulnerability during periods of global instability. In Ukraine’s case, scholars note that reliance on external assistance introduces additional risks, as both the timing and the scale of such support may fluctuate [2].

Moreover, budget policy must take into account that global shocks can generate unexpected chain effects – for instance, the disruption of trade flows, surges in energy prices, or the suspension of financing from international organizations – all of which can rapidly affect state budget revenues. Therefore, in the budgeting process, it is essential to develop scenarios that incorporate uncertainty corridors: What if GDP growth is 2% lower than projected? What if grant funding declines? What if defense or reconstruction expenditures increase unexpectedly?

Under conditions of heightened uncertainty, governments must find a balance between the stability and flexibility of fiscal policy. Stability implies that the budget continues to perform the state’s core functions – such as maintaining social guarantees, infrastructure, and education – without devolving into chaotic spending. Flexibility, in turn, refers to the capacity to swiftly adjust priorities, reallocate resources, mobilize additional funds, or access alternative financing sources. In this sense, budget policy becomes not only a tool for managing revenues and expenditures but also a comprehensive mechanism for risk management.

Another crucial aspect is communication: governments must ensure that budget policy remains clear and transparent to reduce uncertainty for markets, businesses, and the general public. When expectations regarding revenues and expenditures are ambiguous, businesses postpone investment decisions, and households reduce consumption, thereby further constraining economic growth.

Among theoretical approaches, the concept of policy uncertainty is distinguished, referring to situations in which uncertainty about the future course of government policy influences the decisions of businesses and households [5].

Thus, fiscal policy under conditions of global risks possesses several key characteristics: active scenario-based planning, the presence of financial reserves, expenditure prioritization, revenue diversification, debt management, enhanced transparency and communication, as well as coordination with other policy domains.

In countries facing extreme risks – such as military conflicts or climate-related disasters – fiscal policy must function not only as an instrument of routine public financing but also as a mechanism ensuring the resilience and adaptability of the state to external shocks. In particular, research on Ukraine emphasizes that “under conditions of global uncertainty, contradictions inevitably arise in the implementation of fiscal policy, compelling the government to adjust its objectives and methods to maintain macro-financial stability” [2].

Given this, one of the essential tasks of fiscal policy is the creation of a sustainable fiscal space that enables the state not only to respond to immediate challenges but also to support long-term development. In this context, it is crucial to strike a balance between maintaining a budget deficit (as a stimulus tool) and preventing uncontrolled debt growth. At the same time, the role of international assistance, grants, and loans remains significant; however, excessive dependence on them generates additional risks and increases vulnerability to external shocks. For example, in 2024, Ukraine had to rely heavily on substantial transfers from international donors, as domestic budget revenues were insufficient to cover expenditures [1].

Investments in infrastructure, innovation, the “green” transition, and digitalization are all vital components of modern fiscal policy. However, these very areas tend to become vulnerable during crises and periods of heightened risk. Therefore, the budget must include mechanisms that protect such long-term expenditures from immediate crisis-induced reallocations in order to safeguard strategic development priorities. Fiscal policy should also encourage resource mobilization through the tax system, while recognizing that key taxpayers may be under stress due to global risks such as disruptions in supply chains or rising energy prices.

Possible measures include maintaining a broad tax base, introducing new fiscal instruments (e.g., a “green tax” or a digital economy tax), and combating tax evasion and the shadow economy. Under conditions of uncertainty, an equally important aspect of fiscal policy is enhancing expenditure efficiency through cost analysis, audit, monitoring, and spending optimization. It should also be noted that as fiscal policy becomes more flexible, the risk of misuse and instability may increase – hence, sound governance, transparency, and clear regulatory frameworks are essential.

Overall, fiscal policy under conditions of global uncertainty is undergoing transformation: it evolves from a simple mechanism of income and expenditure allocation into a comprehensive instrument for managing public finance risks and ensuring long-term fiscal resilience.

Conclusions. In summary, it can be asserted that fiscal policy under conditions of global risks and economic uncertainty requires a substantial reorientation: from a static budgeting model to a dynamic, adaptive system that accounts for potential shocks and creates financial space for responsive action. The key components of such a policy include scenario-based planning, resource reservation, prioritization of critical expenditures, revenue diversification, responsible public debt management, and enhanced transparency of the budgetary process. Equally important is clear communication with markets, the public, and international partners regarding the budget strategy, as this reduces political and financial uncertainty.

A practical challenge for governments is to combine immediate risk response with the preservation of a strategic development trajectory, ensuring that investments in infrastructure, digitalization, and the “green” sector are not sacrificed solely for crisis management. Finally, the state must develop the capacity to adapt budgetary decisions to changing conditions, diversify sources of financing, and reduce dependence on external transfers or loans. Only such an approach can secure fiscal resilience and enable the state to operate effectively in an environment characterized by high uncertainty and risk.

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