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TRANSFORMATION OF UKRAINE'S FOREIGN ECONOMIC RELATIONS IN THE CONTEXT OF EUROPEAN INTEGRATION AND RUSSIAN INVASION

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Since Ukraine gained independence in 1991, the newly created country has embarked on the process of building an open economy. Like the majority of post-Soviet countries, Ukraine has chosen the path of active cooperation with the European Union. The main document that formalized relations between the country and the Union was the Association Agreement [1]. The economic part of the Agreement was signed on June 27, 2014 [2]. The main subject of the trade part is the establishment of a free trade area within 10 years. The chapter on the Deep and Comprehensive Free Trade Area between Ukraine and the EU opens markets for goods and services. In addition, the DCFTA reduces or eliminates customs tariffs for both parties.

At the beginning of Russia's full-scale invasion of Ukraine, the latter intensified its efforts to get closer to its Western partners in order to consolidate its pro-European position. As a result, on February 28, 2022, Ukraine applied for EU membership. As stated on the European Commission's website [3], on June 23, 2022, based on the Commission's Opinion, Ukraine was granted the European perspective. However, Russia's violent invasion, which is still ongoing, will cause huge economic losses and leave the country in ruins. The EU and its allies will have to support Ukraine's economic recovery with a huge package of financial and technical assistance [4, p. 9-10].

Regarding the balance of payments, the structure of the trade balance has undergone significant changes. The new stage of the war in February 2022 led to a drop in exports and imports by 35.2% and 20.36%, respectively. One of the consequences of Russian aggression was also a change in the structure of partners. Although the EU remained the leader in both exports and imports throughout the study period, its share of trade changed significantly. In 2008, the EU contributed 27.1% to Ukraine's exports (see Figure 1).

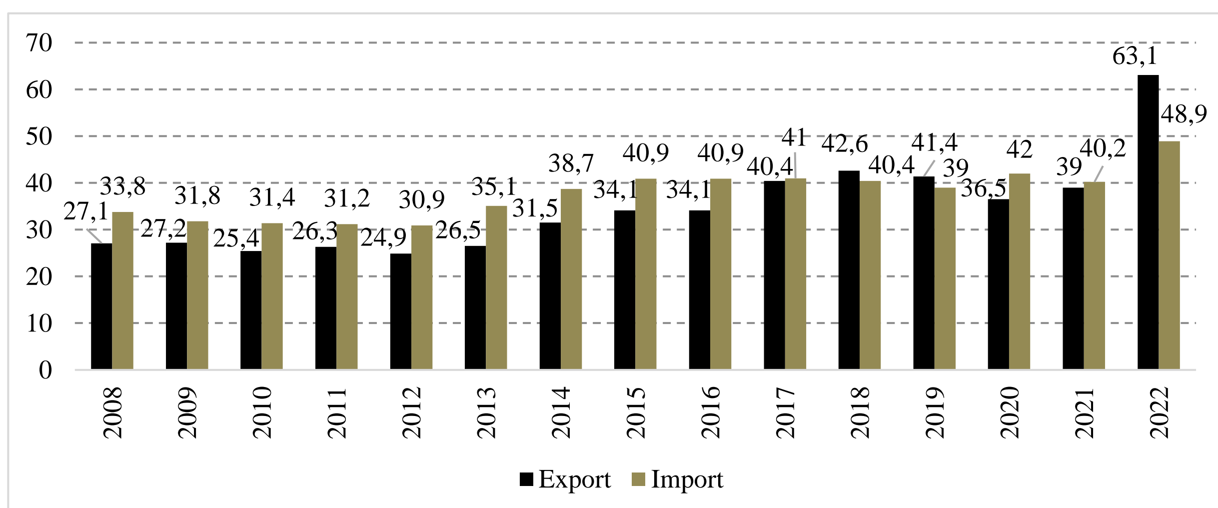

Fig. 1. The EU's share in Ukraine's trade in goods 2008-2022 (%)
Source: compiled by the author based on World Trade Organization 2024 [5].

After the EU-Ukraine Association Agreement came into full force, the share of EU countries in exports rose to 40.4% in 2017 and 63.1% in 2022. This trend can be explained by both the EU-Ukraine agreement and Russian aggression, which forced Ukraine to abandon trade relations with the aggressor country. Integration between Ukraine and the EU has led to a reduction in the difference between exports and imports, which has had a positive impact on the trade balance and product diversification.

However, the main problem for the Ukrainian economy remains the predominance of raw materials in the export structure. According to Mykhailo Molchanov, the replacement of Russia by the EU countries in foreign trade is not effective, as 36-40% of exports to Russia are machinery and transport equipment, while agricultural products and base metals dominate exports to the EU countries [6].

The primary income account also underwent a significant impact. Since 2015, the primary income account has been in surplus, except for 2021. The higher inflows are mainly due to remittances from the recipient countries of Ukrainian labor migrants and the countries with the largest Ukrainian diaspora. Remittances from the Republic of Poland formed the bulk of such inflows. On average, the share of remittances from Poland is 48.02% of the total amount of remittances from the European Union. The Czech Republic (13.59%) and Germany (8.32%) are the second and third largest sources of remittances.

The record value of the secondary income was also reached in 2022, when the surplus increased by 81.68% to USD 25.2 billion. This increase was due to the receipt of grants to Ukraine totalling USD 14.6 billion and humanitarian aid from international partners, primarily the United States and the EU.

Considering foreign direct investment in detail, the deficit of this balance of payments item was observed mostly throughout the entire period under study. After the signing of the Agreement in 2016, investors returned to placing funds in Ukrainian companies and the deficit amounted to USD 3.9 billion. The main investor countries in 2021, the pre-war period, were mainly the countries of the European Union: Cyprus - 31.7%, the Netherlands - 21.6%, Switzerland - 5.8%, the United Kingdom - 4.6%, Germany - 4.6%, Austria - 3.0%, Luxembourg - 2.4%, and France - 2.0% [7].

In terms of Ukraine's balance of payments, the signing of the Association Agreement with the EU and Russia's aggression against Ukraine are complementary factors that characterize significant changes in its accounts. Since 2017, the EU's role in foreign trade has increased due to the elimination of customs tariffs and legislative changes. Nevertheless, the gap in exports and imports of goods remains a significant problem, as Ukraine mainly exports agricultural products to the EU, while importing complex goods. Additionally, economic instability related to the ongoing hostilities and the need to adopt a series of laws and reforms are keeping Ukraine from joining the EU.

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PUBLIC DEBT AS A LEVERAGE OF MACRO-FINANCIAL INSTABILITY IN THE CONDITIONS OF MODERN TRANSFORMATIONS

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The development of the global economy as a whole today takes place in complex, extraordinary conditions of the crisis of state finances and the monetary system, a significant weakening of financial stability and balance, and acute internal and external challenges. All this is reflected in the fall in GDP, the general deficit of trade and payment balances, financial resources at the macro and micro levels, the growth of inflation, the budget deficit and public debt. Public debt is an integral part of the functioning of the macroeconomic system of any country.

This is explained by the fact that relations regarding the formation, maintenance and repayment of debt have a significant impact on the state of public finances, money circulation, investment climate, the structure of consumption and the development of international cooperation. In market economic conditions, almost all countries are faced with a lack of resources to ensure the necessary level of development. The public debt formation is an integral part of economic performance and an effective tool for macroeconomic regulation. Qualitative (structural) and quantitative (dynamic) characteristics of debt formation are interrelated with all macroeconomic and macrofinancial processes in the country [1].

The risks and threats of increasing public debt are manifested primarily in the fiscal and monetary spheres. We will analyze in more detail the role and importance of public debt as a risk factor for fiscal stability and macroeconomic stability and will explore its main parameters in the context of the monetary component of macrofinancial stabilization. Public debt is closely linked to fiscal policy in general and to the budget deficit in particular. The main reason for the increase in public debt is the budget deficit. In recent decades, there has been an increase in public expenditures in all developed world economies, resulting in deficit budgets of the countries and increase in public debt.

If the budget deficit persists for a long time, constantly increasing the amount of public debt, the government's ability to pursue a stabilization policy reduces. In such circumstances, the payment of interest on public debt becomes the main item of state budget expenditures. With large amounts of public debt, the cost of its management may be the main or even the only cause of the budget deficit. If GDP is constant or decreases, and the budget deficit is further financed due to an increase of public debt, there may arise a situation where tax revenues will not be