

UDC: 330. 37.07

DOI: <https://doi.org/10.37734/2409-6873-2025-3-7>

THE ROLE OF FISCAL DIPLOMACY IN INTERNATIONAL ECONOMIC RELATIONS DURING CRISIS

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Abstract. *The purpose of this study is to analyse the economic support provided by the Baltic states to Ukraine during the full-scale war with Russia, focusing on fiscal commitments, bilateral instruments, and institutional co-operation. The research applies a comparative case study method using official data from international organizations (IMF, OECD, EU) and national policy documents. The findings indicate that Lithuania, Latvia, and Estonia have allocated record-high shares of GDP to support Ukraine, institutionalizing aid through long-term agreements. Their contributions have enhanced Ukraine's financial resilience, recovery capacity, and integration into European frameworks. The results are relevant for policymakers seeking effective small-state strategies in wartime economic diplomacy.*

Keywords: *international economic relations, wartime fiscal policy, foreign aid architecture, economic resilience, small-state contribution, bilateral economic cooperation*

Problem statement. The full-scale Russian invasion of Ukraine in 2022 has triggered one of the most significant geopolitical and security crises in Europe since World War II. In this context, the role of international partners in strengthening Ukraine's resilience, both militarily and economically, has become a matter of global importance. Among these partners, the Baltic states (Lithuania, Latvia, and Estonia) have emerged as active and consistent supporters of Ukraine, despite their limited economic capacity. Their contribution encompasses not only military assistance, but also extensive financial, humanitarian, and diplomatic support.

From an economic perspective, this situation raises important theoretical and practical questions about the role of small states in international economic relations during wartime. The relevance of this study lies in addressing these questions through the lens of Baltic-Ukrainian cooperation, focusing on the economic instruments of support: military aid financing, budgetary allocations, international initiatives, bilateral agreements, and the provision of infrastructure and humanitarian resources. The economic aid provided by the Baltic states, often measured as a high percentage of their GDP, serves as a powerful case of values-based foreign economic policy and strategic economic alignment.

Analysis of the latest research and publications. The Baltic states' support for Ukraine has attracted growing academic interest since the onset of Russia's full-scale invasion in 2022. Researchers have analyzed the multidimensional nature of this support,

emphasizing military, diplomatic, and economic dimensions. Jermalavičius T. [9] emphasize that the Baltic states have demonstrated strategic foresight in addressing energy security challenges caused by the war, actively contributing to the development of resilient regional infrastructure and advocating for coordinated EU and NATO responses to energy-related threats. Buras P. and Gromadzki G. [2] analyze how Eastern European states, especially the Baltic trio and Poland, have emerged as informal agenda-setters within the EU on issues related to Ukraine.

A significant portion of the literature focuses on the economic aspect of Baltic support. The OECD outlines the financial flows from Lithuania, Latvia, and Estonia to Ukraine, including development assistance, infrastructure rehabilitation, and energy security support [8]. The IMF's 2023 report assesses the macroeconomic implications of foreign aid to Ukraine and highlights the Baltic states' contributions as proportionally among the highest relative to GDP [5]. NATO provides operational data on Baltic defense assistance, noting how these countries have committed to multiyear defense aid packages and are actively involved in international coalitions to supply arms and training to Ukrainian forces [7]. The European Commission also documents humanitarian and financial commitments, showing that the Baltic states have integrated their Ukraine-focused actions into broader EU policy instruments [3].

Despite the growing body of literature, comprehensive economic assessments of small-state contributions during wartime remain limited. This

article seeks to fill that gap by providing an integrated analysis of the economic dimensions of Baltic-Ukrainian cooperation from 2014 to 2024, including the fiscal, institutional, and strategic aspects of aid.

Purpose of the article. This article aims to examine the economic dimensions of the Baltic states' support to Ukraine during the ongoing Russo-Ukrainian war, with a focus on the forms, mechanisms, and strategic significance of this assistance. The study seeks to explore how Lithuania, Latvia, and Estonia, despite their relatively small economies, have managed to deliver substantial aid by aligning national efforts with broader multilateral frameworks and by institutionalizing long-term cooperation with Ukraine.

The research addresses several interrelated tasks. First, it investigates the structure and volume of economic support, considering fiscal commitments, humanitarian contributions, and development assistance provided by the Baltic states. Second, it analyzes how this support compares in relative terms (e.g., GDP share) to that of larger donor countries. Third, the article explores the role of the Baltic states within international organizations such as the EU, NATO, and OECD in shaping collective aid responses. Lastly, it evaluates the long-term bilateral agreements and memoranda that formalize economic cooperation, while reflecting on the broader implications of this case for the theory and practice of international economic relations in wartime contexts.

Presentation of the main research material. The case of the Baltic states (Lithuania, Latvia, and Estonia) demonstrates a unique form of economic behavior among small states in times of geopolitical crisis. Despite their limited fiscal capacity, these countries have committed an exceptionally high share of their national budgets to support Ukraine's defense and recovery. In relative terms, their contributions, ranging from 1.5% to over 2% of GDP, have exceeded those of many larger economies [5; 8]. This raises a key economic and political question: why do small states allocate scarce public resources to large-scale foreign aid, particularly in wartime?

From a theoretical perspective, such behavior can be explained through a combination of strategic interdependence and economic self-interest. First, regional security is a public good whose stability directly influences national economic performance. For the Baltic states, whose economies are heavily integrated into European markets and vulnerable to external shocks, Russia's aggression against Ukraine presents not only a military but also a long-term economic threat. Any destabilization in Eastern Europe risks disrupting trade flows, investment confidence, and supply chain continuity across the region.

Second, the economic logic of solidarity includes the concept of risk externalization. By supporting Ukraine's resistance, the Baltic states effectively

contain the zone of active conflict and reduce the probability of direct military or hybrid aggression on their own territory. This makes aid not a cost but a form of preventative investment in economic and national security.

Third, the structure of the Baltic economies, particularly their relatively lean public sectors and flexible budgeting practices, has allowed for the rapid reallocation of resources toward external commitments without destabilizing core domestic obligations. Moreover, the symbolic and diplomatic capital earned through consistent support for Ukraine enhances these countries' credibility within the EU and NATO, potentially translating into greater access to regional development funds and long-term economic cooperation.

Thus, the decision by the Baltic states to provide proportionally high levels of support to Ukraine can be interpreted not merely as moral or ideological alignment, but as a rational strategy for managing geopolitical risk and protecting their economic future. This highlights the evolving role of small states in international economic relations, where influence is not solely derived from financial magnitude but from targeted, value-driven contributions that shape regional outcomes.

One of the defining features of the Baltic states' support for Ukraine is not merely the absolute size of their contributions, but the relative weight of these efforts in terms of national economic output. Unlike many larger donor states whose aid volumes are substantial in nominal terms but modest relative to GDP, Lithuania, Latvia, and Estonia have consistently ranked among the top contributors to Ukraine when measured as a percentage of gross domestic product (GDP) [3; 5; 8].

According to data from the OECD and IMF, Estonia allocated 2.20% of its GDP to aid Ukraine between 2022 and 2024, followed by Lithuania with 1.68% and Latvia with 1.53% [5; 8]. These figures place all three Baltic countries at the forefront of international support when adjusted for economic capacity, surpassing even major economies such as Germany (0.36%), France (0.17%), or the United States (0.41%) [5]. This trend illustrates not only political commitment, but also a fiscal strategy that prioritizes long-term regional stability over short-term budgetary conservatism.

The fiscal mechanisms behind these contributions are diverse. Baltic governments have utilized direct budgetary allocations, emergency funding lines, and special military and humanitarian aid packages approved by parliaments. For instance, Estonia passed supplemental budgets in both 2022 and 2023 to finance military assistance and refugee integration, while Lithuania embedded support for Ukraine into its national security and development frameworks [4; 6].

Aid is also institutionalized through multi-year commitments. Latvia and Estonia, for example, have pledged to allocate 0.25% of their GDP annually to Ukraine's defense and reconstruction for at least a decade, as formalized in recent bilateral security agreements [4]. This approach reflects a shift from ad hoc assistance toward strategic, rule-based fiscal planning aligned with foreign policy goals.

In addition to defense-related expenditures, financial assistance has also covered civilian needs: supporting critical infrastructure, healthcare, housing for displaced persons, and energy systems. These are often funded through targeted bilateral programs or in cooperation with EU financial instruments, thus leveraging domestic contributions with additional multilateral resources [3; 8].

The commitment to financing Ukraine's resilience underlines the unique fiscal discipline and political consensus present in the Baltic region. Despite inflationary pressures and growing domestic demands, all three countries have sustained high levels of support over multiple budget cycles, indicating not only solidarity but also a long-term economic calculus that sees Ukraine's survival and recovery as integral to the security of their own national economies.

While multilateral frameworks remain important, much of the Baltic states' economic support to Ukraine has been operationalized through bilateral instruments. These include legally binding agreements, memoranda of understanding, intergovernmental protocols, and financial aid commitments structured through national legislation. Such mechanisms have served to institutionalize long-term economic cooperation between Ukraine and its Baltic partners, enabling more flexible and targeted forms of assistance.

In 2024, all three Baltic countries signed bilateral security and cooperation agreements with Ukraine, each of which includes substantial economic components. Latvia and Estonia committed to allocating no less than 0.25% of their annual GDP toward Ukraine's defense and recovery needs, including both military and civilian expenditures [4]. Lithuania followed with a similar framework, specifying not only funding for defense capabilities but also joint projects in cyber security, humanitarian demining, critical infrastructure, and support for internally displaced persons [6].

Beyond direct transfers, the agreements also facilitate sectoral cooperation. For instance, Lithuania and Ukraine concluded a memorandum on the development of dual-use technologies and joint production of military drones, electronic warfare equipment, and demining tools. These initiatives are expected to stimulate industrial development in both countries and reduce Ukraine's dependence on third-party suppliers [6].

Another important area of bilateral cooperation is energy and infrastructure. In 2024, Lithuania

and Ukraine signed a memorandum on energy market regulation and resilience planning, aimed at synchronizing policy frameworks in electricity, water supply, and renewable energy development [9]. This cooperation includes technical assistance, legislative alignment with EU standards, and joint planning for post-war reconstruction.

In terms of humanitarian and social policy, the Baltic states have also pledged financial contributions to Ukraine's public health and education systems. Latvia has supported the reconstruction of healthcare facilities in Chernihiv, while Estonia has engaged in training programs for Ukrainian civil servants and municipal administrators. These forms of targeted assistance underscore the holistic nature of economic diplomacy in the Baltic approach – extending beyond monetary flows to include knowledge transfer, regulatory harmonization, and institutional capacity-building.

Collectively, these bilateral instruments represent a strategic shift from symbolic gestures of support to structured economic partnership. They establish predictable frameworks for aid delivery, define accountability mechanisms, and strengthen Ukraine's integration with the Baltic region not only politically, but economically and institutionally. In doing so, they reflect a broader trend in international economic relations: the rise of small-state leadership in stabilizing partner economies during times of systemic crisis.

The economic support provided by the Baltic states to Ukraine since the start of the full-scale war has had tangible effects on both Ukraine's short-term resilience and its long-term recovery trajectory. Although modest in absolute terms, the scale and consistency of Baltic assistance, when measured relative to GDP, have positioned Lithuania, Latvia, and Estonia as exemplary actors in value-driven economic diplomacy and strategic partnership building.

One of the most immediate impacts of Baltic aid has been the stabilization of Ukraine's wartime public finances. Direct budgetary transfers and infrastructure-oriented assistance helped offset fiscal pressures in sectors critical to national functioning, including energy, housing, and social welfare. These contributions, while smaller than those from the G7, arrived faster, were less bureaucratically constrained, and were often tailored to urgent operational needs [5; 8].

Support from the Baltic states also played a catalytic role in international donor coordination. Their early and vocal commitment to Ukraine set a normative benchmark for other countries. By dedicating a high share of their GDP to aid, the Baltic states exerted upward pressure on larger economies to expand their own commitments and helped shape the EU's collective aid packages. This influence, disproportionate to their economic weight, demonstrates how strategic behavior by small states can enhance global burden-sharing mechanisms and increase aid effectiveness [2; 3].

In the medium term, the economic cooperation agreements signed in 2024 laid the foundation for deeper integration between Ukraine and the Baltic economies. Joint investments in dual-use technologies, infrastructure resilience, and digital governance not only address Ukraine's immediate reconstruction needs but also create channels for long-term industrial and technological collaboration. These initiatives are particularly relevant for Ukraine's EU accession prospects, as they involve legal harmonization, policy coordination, and institutional learning, all vital components of integration.

Furthermore, Baltic support contributed to Ukraine's economic resilience beyond financial terms. The training of civil servants, the sharing of cyber defense capabilities, and the inclusion of Ukrainian stakeholders in Baltic reform experiences have all strengthened Ukraine's administrative and institutional capacities. In a post-war context, this transfer of administrative know-how may prove as vital as capital flows in supporting Ukraine's reconstruction and transformation into a more resilient and decentralized state.

Finally, the Baltic states' involvement reinforces the strategic interdependence of the region. By linking their own security and prosperity to Ukraine's success, Lithuania, Latvia, and Estonia have embedded their economic diplomacy within a broader logic of regional stability. In doing so, they have demonstrated that small states, through consistent commitment and policy alignment, can serve as stabilizing anchors in an era of multidimensional crises.

Conclusions. The case of the Baltic states' economic support to Ukraine illustrates a paradigm shift in international economic relations, where small states can exert strategic influence through proportionally significant aid and long-term bilateral engagement.

The analysis shows that Lithuania, Latvia, and Estonia have consistently demonstrated a high level of commitment, both in absolute fiscal terms and as a share of GDP, positioning themselves not only as political allies but as economically reliable partners in Ukraine's wartime resilience and recovery.

This research confirms that the economic logic behind such support is rooted in a rational calculus of regional security, economic interdependence, and normative leadership. The institutionalization of bilateral cooperation through long-term agreements, joint production projects, and energy or digital infrastructure programs further underscores the transformative nature of Baltic – Ukrainian relations. Their assistance extends beyond traditional aid frameworks, incorporating elements of innovation, co-investment, and policy alignment that are critical to post-war reconstruction and EU integration.

However, several aspects of this evolving partnership require further academic attention. Future research should explore the efficiency and sustainability of small-state aid models in long-duration conflicts, the impact of bilateral aid on macroeconomic stability and institutional reform in recipient countries, and the potential for replicating the Baltic model in other regions facing security and economic disruptions. Comparative analysis involving other small donor countries (e.g., Nordic states, Slovenia, Croatia) may also yield valuable insights into alternative approaches to economic diplomacy in times of systemic crisis.

In sum, the Baltic states' experience offers a compelling example of how targeted, high-commitment economic strategies by small states can shape regional dynamics, support allies under existential threat, and redefine their role in global governance frameworks.

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Михайлова Є. В., Вениурик А. М., Національний університет водного господарства та природокористування. **Фіскальна дипломатія у системі міжнародних економічних відносин в умовах кризи.**

Анотація. Метою статті є поглиблений аналіз економічної підтримки, наданої країнами Балтії Україні в умовах повномасштабної війни, з акцентом на характер фіскальних зобов'язань, механізми реалізації двосторонньої співпраці та формати інституційної взаємодії, що були сформовані в умовах багатовимірної безпекової кризи. У межах дослідження застосовано **метод** порівняльного кейс-аналізу, що дозволив проаналізувати конкретні підходи трьох країн Литви, Латвії та Естонії до організації фінансової допомоги. Для забезпечення достовірності результатів використано офіційні статистичні матеріали міжнародних організацій, зокрема Міжнародного валютного фонду, Організації економічного співробітництва та розвитку, інституцій Європейського Союзу, а також національні нормативно-правові акти, урядові постанови та чинні міждержавні угоди. У результаті встановлено, що зазначені країни, попри обмеженість економічних ресурсів, забезпечили один із найвищих у світі рівнів фінансової підтримки України у відсотковому співвідношенні до ВВП, що свідчить про наявність чітко структурованих стратегій фіскальної дипломатії. Частина виділених коштів була інституціоналізована через багаторічні рамкові угоди про стратегічну співпрацю, які охоплюють не лише військову допомогу, але й фінансування гуманітарних програм, модернізацію критичної інфраструктури, підтримку енергетичного сектору, цифрової трансформації та інших соціально-економічних напрямів відновлення. **Результати дослідження** демонструють, що допомога з боку малих держав, орієнтована на стратегічну економічну солідарність, може мати системний вплив на стійкість економіки країни-реципієнта. **Практична значущість дослідження** полягає у формуванні підходів до розробки ефективної політики зовнішньої економічної підтримки з боку малих держав, що діють в умовах регіональних загроз і глобальної нестабільності. **Висновки** можуть бути використані при плануванні міжурядових програм допомоги, формуванні бюджетних стратегій у період воєнної кризи, а також у дослідженнях стійкості фінансових систем держав-реципієнтів.

Ключові слова: міжнародні економічні відносини, фіскальна політика в умовах війни, архітектура зовнішньої допомоги, економічна стійкість, внесок малих держав, двостороннє економічне співробітництво.