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Public finance management reform in the Kyrgyz Republic and Ukraine: Ways to increase transparency and efficiency in the use of budget funds

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Abstract. The purpose of the study was to analyse the existing problems of using the budgets of the Kyrgyz Republic and Ukraine and to develop recommendations for improving the management of public funds in the two countries. A comparative analysis of public finance management in Ukraine and Kyrgyzstan for the period 2019-2023 was carried out based on official statistical data, government programmes, and other theoretical sources. As a result of the analysis,

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it was found that budget deficits are typical for both countries. This situation has been observed in two countries for 2019-2023, with the exception of the situation in Kyrgyzstan in 2023. The annual increase in public debt is typical for both countries. For Kyrgyzstan, over the period 2019-2023, by more than 75.1%, and for Ukraine – by more than 3 times. Also characteristic of the two countries is the annual decrease in the transparency of the use of budgetary funds with deterioration in indicators by 25 points for Ukraine and 2 points for Kyrgyzstan for the period 2019-2023. As a result of the analysis, the main measures to improve the current situations in the two countries were identified: attracting foreign capital and changing the structure of expenditures and revenues to reduce the budget deficit, and digitalisation of public budget management and increasing the level of digital literacy of management staff to increase transparency in the use of public finances. It is more difficult for Ukraine to achieve such an effect, given the state of war. Such measures should be implemented gradually step by step for their synergistic effect as a result

Keywords: income and expenses; debt; payment stability; regulatory transformation; taxation

Introduction

The state, on the one hand, acts as a service provider and buyer of goods and services, and, on the other hand, acts as a guarantor of social protection of the population in the form of social assistance payments. In all two cases, the state bears its own expenses. In addition, the interaction of the economy and the state occurs at the expense of income. Through taxation, the state can regulate business activity in society. Tax revenues to the budget also depend on the activity of taxpayers. Another channel of the state's influence on the economy is the achievement of a balance between income and expenditure in the state (Marattin *et al.*, 2022). In order to achieve such a balance between expenditures and incomes, an effective budget management system should function in practice.

In modern conditions, various spheres of national economy of countries are developing, requiring reform and improvement of public money management to effectively develop the country in the international market, as noted in his work K. Ketners (2024). The effective allocation, planning, and use of the country's budget funds have always been the focus of attention of various researchers. Exploring the relationship between tax revenues, government spending, and economic growth in the G7 countries, including the income-expenditure ratio, T. Gurdal *et al.* (2021) concluded that it is almost impossible to achieve synchronisation of income and expenses in practice, therefore, there will always be either a deficit or a surplus of finances in the country's budget. Analysing the changes in the national budget balances of 143 countries over the period 1990-2019, the researchers T. Nguyen *et al.* (2023) concluded that, on the one hand, the deficit and surplus are affected by global uncertainty, which hits fiscal balances regardless of the degree of economic development. On the other hand, the internal management of the country's finances plays a role. Since government debts have reached record levels, an analysis of public finance management in the countries of the former Soviet Union is of interest. Namely, studying the experience of public finance management in Ukraine and Kyrgyzstan and identifying effective measures to apply the experience to improve the situation for Ukraine. An important indicator is the transparency of the use of public funds in the

country. It is transparency that can show what problems exist in the management of budgetary funds in a country (Bauhr *et al.*, 2020; Patynska-Popeta & Zinchuk, 2022).

Accountability has become one of the main topics of modern research in the field of political economy and public administration (James, 2019). Exploring the features of public funds management in democratic conditions, A. Androniceanu (2021) found that it is access to information that develops the trust of the country's citizens in public institutions, allowing them to monitor the performance of budget management functions. Similar conclusions were obtained by A. Farazmand *et al.* (2022), who explored the relationship between corruption, lack of transparency, and misuse of public funds during the crisis. As a result of the meta-analysis, C. Chen and S. Ganapati (2023) concluded that transparency plays an important role in the management of the state budget. The researcher J. Cifuentes-Faura (2024b) came to similar conclusions after analysing a related topic. Other researchers such as A. Mungiu-Pippidi (2023), came to similar conclusions as a result of the study. In countries with high levels of corruption, despite all the fiscal measures of the government, the country's competitiveness is declining (Tiganasu *et al.*, 2022).

In terms of government spending to gross domestic product (GDP), Kyrgyzstan's public sector is large by international standards, which is inherited from the socialist past (Gerstenberg *et al.*, 1999). The same can be said about the situation in Ukraine. According to the Corruption Perception Index, as of 2023, Ukraine has 36 points out of 100, and Kyrgyzstan has 26 (Transparency International, 2023). But, given the level of economic development, Kyrgyzstan is much ahead of Ukraine. It is important to note that this trend was observed even before the start of Russia's full-scale military invasion of Ukraine in 2022. Therefore, it is of interest to analyse the reform of the state budget management system in Ukraine and Kyrgyzstan and to develop measures to improve the reform that can lead to positive results in the development of these countries and solve current problems, for example, corruption and economic growth of countries. This study aimed to close the existing scientific gap.

The purpose of the study was to analyse the state and existing problems in the management of revenues and expenditures of the state budget in Ukraine and Kyrgyzstan and identify ways to improve the efficiency of public financial management. The following tasks were important in the course of the study:

- analysis of the main statistical data characterising the process of public finance management in Kyrgyzstan and Ukraine;
- analysis of budget management reform in Kyrgyzstan and Ukraine;
- development of recommendations to increase the transparency of the use of the state budget.

Materials and Methods

Initially, in order to fulfil the first task set in the study, the most important indicators of state budget management in Kyrgyzstan and Ukraine were determined using statistical data analysis. The statistical analysis was carried out in five stages. At the first stage, the main statistical data of interest were collected and systematised. Such data included the following indicators: expenditures and revenues, budget deficit/surplus (Ministry of Finance of the Kyrgyz Republic, 2022; National Statistical Committee..., 2023a; 2023b; 2023c; 2023d; Ministry of Finance of Ukraine, 2024b), GDP figures (Statista, 2024), the amount of external and internal debt of both countries (Ministry of Finance of the Kyrgyz Republic, 2022; Ministry of Finance of Ukraine, 2024b), percentage of budget deficit to percentage of GDP (National Statistical Committee..., 2023d; 2023e; 2023f; Ministry of Finance of Ukraine, 2024b), budget transparency (International Budget Partnership, 2023a; 2023b). At the second stage, data on income, expenditure, and deficit (surplus) were presented for the period 2019-2023 for each country separately in the form of a table. At the third stage, separately Ukrainian and Kyrgyz indicators of deficit (surplus), budget revenues, and expenditures were analysed in dynamics for different years. To do this, the growth rate formula (1) was used:

$$Gr = \frac{C_p}{B_p} * 100\%, \quad (1)$$

where Gr – growth rate; C_p – indicators of the values of the current period, B_p – indicators of the values of the base period.

The formula (2) of the growth rate of indicators was also used:

$$Gri = \frac{C_p}{B_p} * 100\% - 100\%, \quad (2)$$

where Gri – growth rate of indicators.

At the fourth stage, a comparison of the state budget deficit as a percentage of GDP in the two analysed countries for the period 2019-2023 was carried out. At the last fifth stage of statistical data analysis, the budget transparency indices of Ukraine and Kyrgyzstan for the period

2019-2023 were also analysed and presented in the form of a table. The budget transparency score was compared both in dynamics by year for each country, and in the equality of the two countries, and was also compared with the international average.

Due to the specifics of the topic, the second task of the study was based on the analysis of previous studies and other theoretical sources of information. In order to analyse the specifics of the functioning and reform of budget management in Kyrgyzstan and Ukraine, various sources of information were analysed, including research papers, books, studies, and other publications related to the research topic. The following government programmes also formed the information base of the study: Order of the Cabinet of Ministers of Ukraine No. 774-r “On the Strategy for the Development of the Public Finance Management System” (2013), Order of the Cabinet of Ministers of Ukraine No. 142-r “On Approval of the Strategy for Reforming the Public Finance Management System for 2017-2020” (2017), Order of the Cabinet of Ministers of Ukraine No. 1805-r “On Approving the Strategy for Reforming the Public Finance Management System for 2022-2025 and the Action Plan for its Implementation” (2021), Resolution of the Government of the Kyrgyz Republic No. 696 “On Approval of the Strategy for the Development of Public Finance Management in the Kyrgyz Republic for 2017-2025” (2016), Annex 1 to the Resolution of the Government of the Kyrgyz Republic No. 469 “Main Directions of Fiscal Policy of the Kyrgyz Republic for 2020-2022” (2019).

Results

The state budget acts as the main fund for the preservation and distribution of money in the country. It is with the help of the state budget that the government concentrates a certain part of GDP and distributes funds for the subsequent development of the country's national economy (Ministry of Finance of Ukraine, 2024a). The state budget management system is a set of processes, mechanisms, and rules that regulate the use of state funds in various areas.

The ideal scenario for managing the state budget in any country is the predominance of income over expenditure. Consequently, the resulting balance is the part of the budget that the government of the country, on the one hand, can direct to address unforeseen circumstances and their consequences, and, on the other hand, these funds can be directed to the income of the state budget next year. But this is only a theory, but in practice there is often a situation of budget deficit, that is, not covering expenses with income for a calendar year. Kyrgyzstan and Ukraine are no exception. During 2019-2022, Kyrgyzstan experienced a budget deficit (Ministry of Finance of the Kyrgyz Republic, 2022). In Ukraine, the state budget deficit is observed for the period 2019-2023 (Ministry of Finance of Ukraine, 2024a). The study will take a closer look at the indicators of the state budget of each country. Revenues, expenditures, and the balance of the state budget of Kyrgyzstan are listed in Table 1.

Table 1. Revenues, expenditures, and deficit of the state budget of Kyrgyzstan for 2019-2023

Year	Revenues, million USD	Percentage of income change	Expenses, million USD	Percentage of change in expenditure	Deficit/surplus, million USD
2019	2,401.1	-	2,407.3	-	-6.2
2020	1,836.7	-23.5	2,074.9	-13.8	-238.2
2021	2,476.1	34.8	2,496.9	20.3	-20.8
2022	3,508.9	41.7	3,630.3	45.4	-121.4
2023	4,403.2	25.5	4,261.4	17.4	141.8

Note: exchange rate as of December 31 of each year under study

Source: compiled by the authors based on data from the Ministry of Finance of the Kyrgyz Republic (2022), National Statistical Committee of the Kyrgyz Republic (2023b; 2023c; 2023d)

Analysing the data in Table 1, it can be concluded that the dynamics of the country's income for the period 2019-2023 was characterised by an annual increase, with the exception of 2020. The growth rate of budget revenues for the same period amounted to 83.4%. The cost growth rate for

2019-2023 was 77%. For the period 2019-2022, Kyrgyzstan had a state budget deficit except for 2023, when the figure was 141.8 million USD surplus. Considering the indicators of budget revenues and expenditures for Ukraine, there is also a budget deficit in the country (Table 2).

Table 2. Revenues, expenditures, and deficit of the state budget of Ukraine for 2019-2023

Year	Revenues, million USD	Percentage of income change	Expenses, million USD	Percentage of change in expenditure	Deficit/surplus, million USD
2019	42,121.5	-	45,269.7	-	-3,148.2
2020	38,224.4	-9.3	45,755.5	1.1	-7,531.1
2021	47,743.5	24.9	54,829.2	19.8	-7,085.7
2022	44,573.5	-6.6	67,466.9	23.1	-22,883.4
2023	70,085.2	57.2	105,296.2	56.1	-35.211

Note: exchange rate as of December 31 of each year under study

Source: compiled by the authors based on data from the Ministry of Finance of Ukraine (2024a)

Analysing the data from Table 2, it can be concluded that the dynamics of Ukraine's income for the period 2019-2023 was characterised by an annual increase in the same way as the dynamics of expenses. The budget revenue growth rate for the same period was 66.4 per cent (from 42,121.5 million USD in 2019 to 70,085.2 million USD in 2023). The growth rate of expenditure for 2019-2023 was 132.6% (from 45,269.7 million USD in 2019 to 105,296.2 million USD in 2023). It is important to take into consideration that Ukraine has been in a state of armed conflict with Russia since 2014, which in February 2022 turned into a war with a full-scale attack on the territory of Ukraine by Russia. Wars increase the importance of government functions, but at the same time limit its ability to perform these functions. That is, effective governance during war is significantly undermined (Klymak & Vlandas, 2024). More than 8 million people moved abroad, which had the effect of reducing tax payment (Poluschkin & Kirchner, 2023). The number of internally displaced persons in Ukraine is estimated at 7 million. Damage to residential and other buildings, as well as infrastructure, is already estimated at more than 114 billion USD (Bergmann & Romanushyn, 2022). The country's economic capital was also hit. Consequently, this situation has significantly affected the country's budget in terms of excess spending.

Calculations have shown that during the analysed period, the growth rate of budget expenditures outstrips the increase in its revenue side. Consequently, for the period 2019-2023, there was an annual state budget deficit in Ukraine. The deficit of the Ukrainian budget increased more than 11 times during the period under review (from -3,148.2 million USD in 2019 to -35.211 million USD in 2023) (Ministry of Finance of Ukraine, 2024b). The budget deficit in the country can be covered by loans, both external and internal. Government loans are less dangerous than the issue of funds in the country, therefore, the governments of both Ukraine and Kyrgyzstan resort to such a tool. When it comes to external forms of borrowing, these can be loans in international organisations, loans in banks, non-budget funds, or other persons. In terms of domestic borrowing, it is a country's debt to holders of valuable government securities and other creditors (Ministry of Finance of Ukraine, 2024b). As a rule, all countries of the Commonwealth of Independent States (CIS) cover the budget deficit through international lending. Because this is due to the limited ability to generate income in the country through taxes and other financing systems. Considering in dynamics the external and internal public debt of Kyrgyzstan, a tendency to its increase for the period 2020-2023 can be noted, which is a negative trend. The growth rate of public

debt over the period under study amounted to 75.1% (from SOM 319,474.6 million in 2019 to SOM 559,503.6 million in 2023) (National Statistical Committee..., 2023a). Analysing the structure of public debt on domestic and foreign loans, it can be concluded that 80% of public debt is foreign debt. Consequently, 20% of the public debt is the internal debt in the budget of Kyrgyzstan (Ministry of Finance of the Kyrgyz Republic, 2022).

Analysing the public debt of Ukraine, there is a tendency for its increase for the period 2019-2023 by more than 3 times (from UAH 1,998,275.4 million in 2019 and by UAH 6,115,263.5 million in 2023). Analysing the structure of public debt on domestic and foreign loans, it can be concluded that about 72% of public debt is foreign debt, and

domestic debt is about 28%. At the same time, in Ukraine, the growth rate of external debt is significantly ahead of the growth rate of domestic debt, since they amount to 280.4% and 103.2%, respectively (Ministry of Finance of Ukraine, 2024b). The budget deficit is not considered by researchers as a catastrophically negative financial indicator, since many states operate at the expense of external debt. This practice is considered normal practice today. But it is important that the amount of the state's debt is not exceeded annually and does not become a problem for taxpayers. The budget deficit can occur as a "normal indicator" if it is 2-3% of the country's GDP. The government budget deficit as a percentage of GDP in the two analysed countries for the period 2019-2023 is presented in Table 3.

Table 3. Budget deficit of Kyrgyzstan and Ukraine as % of GDP

Year	Ukraine	Kyrgyzstan
2019	1.9%	0.07%
2020	5.2%	3.3%
2021	3.6%	0.2%
2022	17.6%	1.13%
2023	20.4%	-

Source: compiled by the authors based on data from the Ministry of Finance of Ukraine (2024b), National Statistical Committee of the Kyrgyz Republic (2023d; 2023e; 2023f)

Analysing the above data in Table 3, it can be concluded that as of 2019-2023, Kyrgyzstan's debts fluctuate, while for Ukraine over the same period the indicators increased annually, turning into a problem for the financial system of each country (National Statistical Committee..., 2023a; Ministry of Finance of Ukraine, 2024a). A separate aspect of interest is the transparency of the use of budgetary funds. Transparency is recognised as one of the main pillars of effective and democratic financial resource management. In this context,

transparency should be understood as openness to the general public of the structure, functions, and intentions of the government in relation to state budget funds (Chen & Neshkova, 2020). In modern conditions, the transparency score is calculated for 125 countries by the International Budget Partnership. Based on 109 criteria, the transparency score is estimated from 0 to 100 points (Cuadrado-Ballesteros & Bisogno, 2022). A comparison of the transparency scores of Ukraine and Kyrgyzstan is shown in Table 4.

Table 4. Budget transparency score of Ukraine and Kyrgyzstan

Year	Ukraine	Kyrgyzstan
2019	63	63
2021	65	62
2023	38	61

Source: compiled by the authors based on data from the International Budget Partnership (2023a; 2023b)

An indicator of 61 points or higher is considered good. This indicator is observed in Kyrgyzstan in 2023. Kyrgyzstan ranked 383rd out of 125 countries in terms of transparency in 2023 (International Budget Partnership, 2023b). Based on the indicators presented in Table 4, it can be concluded that as of 2023, the level of transparency of budget management in Ukraine was insufficient. Ukraine ranked 79th out of 125 countries in terms of transparency in 2023. However, the national average for 2023 was 45 points (International Budget Partnership, 2023a). But it is important to consider the factor of war. The international community has been providing financial support to Ukraine since the beginning of the full-scale invasion.

Therefore, full transparency of the Ukrainian budget in the period 2022-2023 is primarily a matter of the country's military security. Russia can use such information for its own selfish purposes. In dynamics, the indicator of budget transparency in Kyrgyzstan is gradually decreasing, while in Ukraine it increased until 2021 inclusive, after which it sharply decreased in 2023. That is, this is a problem for both countries and measures are needed to improve this indicator, considering the country's military security. Returning to the issue that the country's debt and budget deficit are interrelated, the reform of the public finance management system in the country's budget in conjunction with the implementation of measures to improve the

transparency of the use of the country's financial resources is relevant and important for Kyrgyzstan as of 2024.

For a long period of time, both Ukraine and Kyrgyzstan have been reforming the budget system. Initially, in the two analysed countries, starting in 1991, public finance management was based on financial management standards in the Union of Soviet Socialist Republics (USSR). Next, the study considers the development of public finance management reform in each of the analysed countries in more detail. During 1991-2013, public finance management was regulated by legislation, which was developed based on Russian legislation at that time. Considering the components and structure of legislative acts that were adopted in Ukraine during the first 20 years of independence, it can be concluded that they completely duplicate similar laws of Russia. As a result, the management of public finances and its regulation were increasingly approaching the Russian system and increasingly moving away from European management standards. Since 2013, the government of Ukraine has entered a new stage of development in the management of the state budget system, starting to develop its own approaches. In 2013, the Order of the Cabinet of Ministers of Ukraine No. 774-r "On the Strategy for the Development of the Public Finance Management System" (2013) was adopted, which provided for the development of independent financial control, public involvement in budgetary issues, and improvement of the tax system. That is, the process of development by the state budget office has begun.

The next strategy was developed in 2017 and was supposed to improve public financial management by 2020. The second adopted strategy was designed to develop four main areas: compliance with financial discipline and its development in the medium term, improving the allocation of financial resources, more efficient use of financial resources from budgets, and increasing the level of transparency in the management of the state budget. In terms of financial discipline, the tasks were to reform the country's public debt, improve the tax system, introduce budget forecasting, and draw up three-year budgets. In terms of improving the allocation of financial resources, the objectives were primarily strategic budget planning and the introduction of the programme-targeted method of budgeting. The objectives of improving the allocation of financial resources were to increase state control over the country's financial resources, improve accounting and management of budget funds, respectively, to European and state standards. In terms of increasing the level of transparency in the management of the state budget, the objectives were to increase the transparency of both budget revenues and expenditures, and the introduction of information technology in the management process (Order of the..., 2017; Annex 1 to..., 2019). Following this reform, there was fiscal consolidation in Ukraine over 2015-2019, as evidenced by a 69.4% increase in GDP growth rate (from 90.91 billion USD in 2015 to 154.01 billion USD in 2019) (Statista, 2024). The researchers also claim that due

to the above-described strategy, it was possible to reduce the country's debt by 30.6% (Demianyshyn, 2022).

In 2020, such an external challenge as the spread of the SARS-CoV-2 coronavirus pandemic, and internal problems such as insufficient accountability for the use of budget funds, lack of medium-term planning provoked a revision of the existing strategy. In 2021, the government of Ukraine adopted a new strategy for reforming financial resource management, designed for the period 2022-2025. The purpose of such a strategy was to build a sustainable and effective strategy for managing the country's budget to ensure financial stability. This approach was supposed to have a positive impact on the economic development of the country and the country's integration into the European Union (Toktosunova *et al.*, 2024). Such a strategy provided for changing the tax system in accordance with European standards, reforming the management of both internal and external debt of the country, forecasting the budget, planning it, ensuring high-quality execution of plans, increasing transparency in budget management (Order of the..., 2021). In order to increase transparency in the management of financial resources in Ukraine for the period 2018-2020, a system was put into effect "Transparent Budget", which in 2024, through digital tools, provides citizens with a real-time analysis of all aspects of interest regarding the use and management of the state budget. Such a system combines three main areas of tracking state budgeting and financing: an open database of the country's public finances, a budget for Ukrainian citizens with information about the specifics and lines of budget tasks, and information about projects that are implemented at the expense of international organisations (IFIs Projects, 2024). Given the insufficient level of budget transparency in Ukraine as of 2023, it can be concluded that the problem with transparency has not been solved. That is, despite the introduction of new strategies for the development of the country's financial resources management, the problems are not being solved, since each strategy repeats the measures being implemented.

In Kyrgyzstan, as of 2024, firstly, changes in the pension system are being discussed, the purpose of which is to ensure the sustainability of the pension fund. Secondly, reforms in public finance management are being discussed, which is aimed at increasing transparency and efficiency in the use of budget funds. The study will consider in more detail the role of these changes in relation to the state budget of the country. Initially, the transformation of the public finance management system in Kyrgyzstan in 1991 was carried out within the framework of the crisis of the old system that remained from the USSR. Initially, the state transformed the tax system close to a market economy and introduced the abolition of subsidies from the state and the issuance of public loans, which significantly reduced budget expenditures for the period 1992-1995. During the same period, the first attempts to implement international standards of control and reporting were introduced. Such actions resulted in haphazardness. Further, reactionary

short-term policy in the country became a pattern, causing other negative consequences. The following attempts to change the management of the state budget were characterised by both positive changes and unsuccessful actions. Since the country did not have its own development strategy, reforms were not carried out in most areas for many years. As a result of the functioning of the country's budget system, democratisation and increased transparency of governance have not been observed for many years, which as a result caused a revolution among the population towards the government, which did not fulfil its duty to society with minimal transparency in the use of budget funds (Tiuliundieva, 2012).

After Kyrgyzstan gained independence in 1991, the underdevelopment of the financial market and the lack of funds also proved to be a problem. But gradually, the government reformed the country's financial system, including its social component. The relations between the state and society, which were established during the accession of Kyrgyzstan to the USSR, began to gradually transform for the better. Since 1997, the conditional savings system began to operate in the country, which assumed the accumulation of funds in an individual account of a person without saving, but only for the purpose of using current pensioners in the country for pension payments. The retirement age was also raised for both women (from 55 to 58 years old) and men (from 60 to 63 years old), pension benefits were reduced and a three-level pension system was introduced. It assumed the payment of pensions based on work experience, employee contributions as a percentage of the salary rate before 1996, and individual pension contributions. Such measures helped to reduce pension debt in the country by 1.9% of GDP for the period 1996-2008. However, the financial stability of the system has not been achieved. Therefore, in 2010, a conditional funded pension system was adopted in the amount of 2% of the average salary. This step served to further improve the pension system in the country. In 2024, the pension is paid from the pension insurance system in the amount of the insurance and funded component. The insurance component is a part of the general pension, which is established based on a person's insurance record, salary, or accumulated insurance premiums. The accumulative component is a new aspect and represents, relatively speaking, the "safety cushion" of the Kyrgyz pension system (Zholboldueva et al., 2024). Such measures have been able to help Kyrgyzstan to improve its public budget management system. This happened due to the reform and optimisation of the use of public spending on the social component. Thus, the government of the country has improved the socio-economic component, but it cannot be argued that such measures have led to more effective budget management and increased its transparency. This problem still remains unresolved and requires the implementation of improvement measures.

The negative consequences of budget deficits and inefficient management of the state budget require a comprehensive approach of improvement measures. The main

task in this case is to determine the balance between income and expenditure in the state budget. This is the only way to conduct a targeted financial policy. In the process of developing measures to reduce budget deficits, it is necessary to understand three main aspects. Firstly, mathematical operations cannot dramatically lead the country to a surplus, since the consequences of such a "leap" are much more difficult to eliminate. This is especially important to consider when developing measures for Ukraine, where the budget deficit in 2023 is large compared to Kyrgyzstan. Secondly, budget surpluses are not an integral part of a dynamically developing economy. Budget deficits are the norm, given the specifics of the country's economic development. Thirdly, as the analysis of public debt shows, for both Ukraine and Kyrgyzstan, replenishing the budget through a loan is not a promising and effective solution to the problem. Fourthly, the 'treatment' of the country's economic system itself is important, because without developing the country's economy, it is impossible to achieve financial sustainability, despite many measures applied. It is the above four aspects that are the basis of the programmes being developed to regulate the level of expenses and income and reduce the level of deficit in the state budgets of Ukraine and Kyrgyzstan. It is important to consider them when reforming the management of public budgets in the analysed countries.

Since each country has its own specific features of the budget system operation, it is extremely difficult to identify universal measures that can reduce the budget deficit. However, it is obvious that the funds of the state budget deficit should be directed to those measures that allow them to be returned in the form of taxes (Ketners, 2015). One of the possible options for reducing the state budget deficit for the two countries is to attract investments into the country, especially foreign capital. Attracting foreign capital reduces the gap between expenditures and revenues of the state budget, since first of all the expenses aimed at financing capital investments are reduced. In addition, attracting foreign investment increases the potential base of production of goods or services and attracts new taxpayers to the country's financial system (Trusova et al., 2022). Consequently, due to tax deductions, revenues in the state budget increase and the balance of payments improves. It is more difficult to achieve such an effect in modern conditions in Ukraine, since the country is at war, which minimises investments in the economy. However, for Kyrgyzstan, such measures are of considerable interest. If the budget remains in deficit after the above measures are implemented and the economy does not develop, an important measure is to cover the funds by reducing other budget items.

Since the transparent process of budget management in the country is the basis for effective management, the main and correct approach to increasing transparency for both Ukraine and Kyrgyzstan is the digitalisation of this process to increase accessibility to information for all interested parties. A necessary and important common feature for the two countries is the systematisation of financial data

from society to the highest level of financial management with automatic information exchange. Due to such actions, it will be possible to improve the process of execution and control of the expenditure of public funds. Positive consequences of digitalisation of financial resource management are also expected, such as reducing errors due to the “human factor” in decision-making, reducing the risk of document loss, and improving the quality and effectiveness of decisions made (Demi *et al.*, 2021). This approach will also reduce corruption schemes, which is relevant for Ukraine. In addition, synergy between different institutions is important, for example, between the Treasury, the Ministry of Finance, and the Ministry of Economy. For Ukraine, such a system will especially occupy an important place after the end of hostilities in the process of restoring the country's economy. However, at the stage of the country's stay in a state of war, it is important to adapt the digital process to military conditions, improving the methods of analysing transparency and accessibility of financial government information.

When implementing digitisation in practice, a personnel problem may arise in two countries, since not all specialists are ready for such processes. In parallel with the introduction of digitalisation in public finance management, it is also important to develop digital competencies among employees involved in this field. However, it is important not to confuse computer literacy and digital competencies. These concepts are not identical. Computer literacy is inherent in government employees working in the financial resources management industry of the country, since they relate to computer and software skills. Digital competencies include the confident, critical and responsible use of digital technologies and interaction with them for learning, work, and participation in society. It includes information literacy, communication and collaboration, security (including digital well-being and cybersecurity skills), problem-solving, and critical thinking (Vuorikari *et al.*, 2022). In other words, the development of digital literacy in a broad sense is important – it is the acquisition of skills that allow coping with the process of digital transformation (Rolf, 2022). In other words, the ability of people to use information and communication technologies in such a way that they can easily and quickly search, evaluate, create, and transmit information using digital tools in various forms and formats (Nikou *et al.*, 2022). Given the speed of change in the digital world, skill development is not a one-time approach, but requires continuous professional intervention (Marx *et al.*, 2021).

Considering all the above aspects, it can be concluded that for both countries it is important to restructure the financial system by management, which subsequently contributes to changing the structure of the economy, increasing the pace of digitalisation and scientific and technological development, and increasing the standard of living in the country for the population.

Discussion

The study found that both Kyrgyzstan and Ukraine are characterised by budget deficits, which increase annually.

The only exception is the situation in Kyrgyzstan in 2023, which has improved. However, the amount of public debt in the two countries increases annually, and the transparency of the use of public funds decreases annually. The reforms introduced earlier were able to improve the situation in Kyrgyzstan, but did not increase the effectiveness of budget management in Ukraine. As a result of the analysis, it was determined that the management system of the two countries needs further reform, considering the previous aspects being implemented and their effectiveness in practice. Therefore, it is important for both countries to restructure the financial system by management, which subsequently contributes to changing the structure of the economy, increasing the pace of digitalisation and scientific and technological development, and increasing the standard of living in the country for the population.

Considering the indicators of the effectiveness of managing the country's financial resources, it was determined that transparency in the management of public funds is the basis for improving the efficiency of their use. These results are consistent with the findings of B. Cuadrado-Ballesteros & M. Bisogno (2022). The researchers tried to find out whether a higher level of budget transparency is related to financial stability. During the analysis, the researchers analysed 110 countries to find the answer to this question. As a result of statistical analysis, the researchers concluded that budget transparency directly affects financial stability. An analysis of approaches to budget management in Ukraine and Kyrgyzstan revealed noticeable significant differences in terms of budgeting transparency. Kyrgyzstan has a higher level of transparency than Ukraine, but in two countries there is an annual decrease in this indicator, which is a negative aspect and requires measures to increase transparency in the management of public budget funds.

As a result of the conducted research, it was determined that the military situation of the country plays a significant role in the transparency of the budget of Ukraine. The effective management of public funds during the war is seriously undermined, as the government's ability to collect the revenues necessary to maintain stability is limited and the security aspect of the country is in question. Since the beginning of Russia's full-scale invasion of Ukraine, transparency in the management of public funds has been primarily a matter of state security, since the country is provided with financial international military assistance. Russia can use such information for its own selfish purposes. Such conclusions are not consistent with the findings of J. Cifuentes-Faura (2024a), who investigated the transparency of the government of Ukraine. As a result of the analysis, the researcher connects corruption, transparency, and accounting in the context of the Ukrainian war, emphasising the important role of audit and financial control in relation to the management of public funds. Other researchers come to similar conclusions, such as S. Nate *et al.* (2023), who investigated the transparency of the budget system of Ukraine during the war and the methodology of its assessment. As a result of the analysis, the researchers concluded

that it is equally important that military expenditures, especially those provided by international partners, are not only sufficient to maintain the country's armed forces, but also have a high level of openness, are not associated with corruption or money laundering and guarantee their effective use. The researchers argue that the methodology for calculating the transparency indicator for a country in a state of war should be improved.

Other researchers, such as T. Becker *et al.* (2022), focused the analysis primarily on the eradication of corruption, and then improving the transparency of public funds management. In the process of rebuilding Ukraine after martial law, there will be significant financial revenues from international partners. Therefore, it is important for Ukraine, first of all, to make significant improvements and a clear strategy of anti-corruption policy in the reconstruction of Ukraine. Although, as a result of this study, it was noted that first of all it is important to pay attention to the transparency indicator, which will subsequently lead to a decrease in corruption. That is, the results of this study on the initial measures to improve public financial management in Ukraine contradict the results of the researchers.

As a result of this study, it was determined that the main way to increase transparency in the use of budgetary funds for both Ukraine and Kyrgyzstan is the introduction of digital tools into the financial management process, focusing on the availability of information. However, the availability of information does not guarantee transparency. This is stated by L. Birskyte (2018), as a result of an analysis of the transparency of the Lithuanian budget. Using the example of Lithuania, the researcher described that true transparency requires that the information disclosed must be complete, relevant, correct, timely, and presented in a user-friendly format. These five factors should be decisive in the process of reforming the management of the state budget. The idea of introducing digital tools into the management of the state budget is also supported by N. Temirov *et al.* (2023), who investigated the processes of digitalisation in the state budget. The researchers also emphasised that digitalisation should be carried out systematically both at the municipal and state levels of budget management in Kyrgyzstan and, due to synergy, will bring more efficient spending of finances and make the approach to managing the state budget more optimal.

Focusing on the relationship between digitalisation and public administration, A. Androniceanu *et al.* (2022) found that the level of e-government proved to be the best predictor of corruption control and government effectiveness, which suggests that digitised and less corrupt governments also make the economy more competitive. In addition, such results are consistent with the findings of N.R. Mosteanu & A. Faccia (2020), who investigated financial management and the digitalisation process. As a result of the study, the researchers have established that finance and its management must adapt to the digital era. The researchers note that many states are already implementing artificial intelligence and blockchain in the process of

managing funds to tax and financial authorities. The advantages of using these digital tools are primarily that they reduce the risk of mistakes that people can make. Such digital tools can analyse big data and improve the reliability of reports, increase efficiency. Another advantage is the low risk of fraud (Loxha, 2019). However, this study did not consider the aspect of possible fraud and cybersecurity, data protection when implementing digitalisation in the management of the state budget at different levels. Other researchers have focused on this aspect. For example, A. Clarke (2020), analysing the digitalisation of public administration, noted the accountability dilemma accompanying digital government reforms. This was not noted as a result of the study. Other researchers, such as S. Quach *et al.* (2022), analysing the implementation of digitalisation in practice, noted the problem of data protection. This is especially important for governance at the state level.

As a result of this study, it was found that the introduction of digitalisation in the management of the state budget requires the development of digital competencies among employees of this industry in both Ukraine and Kyrgyzstan. Such conclusions are consistent with the opinion of other researchers. Some researchers emphasise how important it is to update the knowledge and digital skills of many employees as part of the ongoing digital transformation (Clarke, 2020). This study and its results are not exhaustive, but the results show the most important areas that are important in the modern system of public finance management for both countries for further development. The study examined the areas of public budget management, improvement of transparency in the use of public finances by the government and in the short term, and a sustainable development of the economy.

Conclusions

Comparing state budget management in Ukraine and Kyrgyzstan, it can be concluded that despite the fact that after gaining independence in 1991, the two countries had resources and opportunities to improve this process. The two countries have gone through different ways of reforming the public finance management process. As a result of the analysis of changes in the structures of public expenditure and income management in both countries, it can be argued that the practice used in Kyrgyzstan has proved effective, but still requires improvement. The practice used in Ukraine has proved ineffective. Combined with the military actions in the country, it led to a large deficit in the country for the period 2019-2023. Military conditions limit the government's ability to effectively manage the country's revenues, and the war also affects the security aspect while increasing transparency in the use of budget funds. This is clear from the main statistical indicators analysed in the study. Since, Kyrgyzstan was able to go into a budget surplus over the period 2022-2023, while Ukraine still has a budget deficit. The level of external debt increases annually in both Ukraine and Kyrgyzstan. In Kyrgyzstan, the level of external debt increased by more than 75% in 2019-2023,

and in Ukraine – by more than 3 times. But despite all the measures being implemented in the two countries, there is still room for improved public budget management and increased budget transparency.

During the analysis, it was determined that the emphasis should be placed on attracting investments and increasing taxes to the budget. If such measures are ineffective, it is important to change the structure of budget expenditures and revenues by item. In addition, it is important to introduce digital technologies into the process of managing the state budget in the two countries. At the same time, it is also important in Ukraine to adapt the digitalisation of management to military conditions and security aspects of providing financial information to all interested parties, improving the methodology for assessing transparency and accessibility of information provided by the government. With the introduction of digital technologies in public finance management, it is also important to promote and develop programmes to improve the digital literacy of employees related to the management functions of the state budget.

The limitation of this study is the analysis of the total income and expenditure of the budgets of the two countries. In further research, it is important to identify the

items of income and expenses that prevail in the budgets of Ukraine and Kyrgyzstan. Such an analysis will provide a better understanding of what measures should be implemented to improve public financial management.

The process of digitalisation of public finance management is important for further development. Such a process will be able to improve the transparency of the use of public funds and increase citizens' trust in the government, and improve democratic processes in both countries. In the process of digitisation, it is important to improve the digital competencies of employees in this industry for greater efficiency of management processes. The digitisation process will vary in each country, but it is important to gradually develop digitalisation to improve the efficiency of financial resources management and increase transparency of their use by the government, despite the fact that both countries already have sufficient potential and opportunities for improvement.

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Conflict of Interest

None.

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Реформа управління державними фінансами в Киргизькій Республіці та Україні: шляхи до підвищення прозорості та ефективності використання бюджетних коштів

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Анотація. Метою дослідження був аналіз наявних проблем використання бюджетів Киргизької Республіки та України і розробка рекомендацій щодо покращення управління державними коштами у двох країнах. У дослідженні проведено порівняльний аналіз управління державними фінансами в Україні та Киргизстані за період 2019-2023 років. Аналіз проводився на підставі офіційних статистичних даних, державних програм та інших теоретичних джерел. У результаті аналізу встановлено, що для обох країн характерним є дефіцит бюджетних коштів. Така ситуація спостерігається у двох країнах протягом 2019-2023 років за винятком ситуації в Киргизстані за 2023 рік. Характерним для обох країн є щорічне збільшення державного боргу. Для Киргизстану за період 2019-2023 років більш ніж на 75,1 %, а для України – більш ніж у 3 рази. Характерним також для двох країн є щорічне зменшення прозорості використання бюджетних коштів із погіршенням показників на 25 балів для України та 2 бали для Киргизстану за період 2019-2023 років. У результаті аналізу визначено головні заходи щодо поліпшення ситуацій, що склалися у двох країнах: залучення іноземного капіталу та зміна структури видатків і доходів для зменшення дефіциту бюджету, а також цифровізація управління державним бюджетом і підвищення рівня цифрової грамотності співробітників апарату управління для підвищення прозорості використання державних фінансів. Україні складніше домогтися такого ефекту з огляду на воєнний стан. Такі заходи слід впроваджувати поступово крок за кроком для їхнього синергетичного ефекту в результаті

Ключові слова: доходи та витрати; заборгованість; платіжна стабільність; перетворення регулювання; оподаткування
