

THE MODEL OF SUSTAINABLE DEVELOPMENT OF KYRGYZSTAN'S FINANCIAL ECONOMY WITH THE OPTIMISATION OF INTER-BUDGETARY RELATIONS

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ABSTRACT

This paper is devoted to the development of a model for the sustainable development of Kyrgyzstan's financial economy with the optimisation of regulation of inter-budgetary relations. To address this, we conducted an econometric study based on statistical data from the Kyrgyz financial economy over the last two decades (2004-2023). The model contains disclosed economic and mathematical dependencies of the sustainability of the financial economy of Kyrgyzstan on the regulation of inter-budgetary relations. The model also contains the prepared alternative forecasts of the sustainability of the financial economy of Kyrgyzstan with various regulations of inter-budgetary relations by 2040. In addition to this, the model covers applied solutions for the optimisation of regulation of inter-budgetary relations in Kyrgyzstan. The main conclusion is that the sustainable development of Kyrgyzstan's financial economy in the horizon of strategic planning until 2040 requires optimisation of regulation of inter-budgetary relations. The author's recommendations will help perform it. The model strengthens the scientific and methodological support of the coordination of regulatory and private-commercial segments of the Kyrgyz financial system, which leads to its theoretical contribution. The model outlines the perspective of the sustainable development of Kyrgyzstan's financial economy with the optimisation of regulation of inter-budgetary relations, providing control milestones of this optimisation and allowing for successful implementation of the presidential initiative of growth and development of the Kyrgyz economy. Therein lies the practical significance of the author's model. The practical implementation of the prepared recommendations in Kyrgyzstan's financial economy will allow raising the sustainability of the country's financial system through the strengthening of the official international exchange rate of the national currency, deflation of GDP %, growth of the inflow of foreign direct investments in the economy, and reduction of the share of unsecured bank loans.



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1. INTRODUCTION

In the totality of threats and limitations of the Kyrgyz economy, an important place belongs to financial risks,

which increased particularly against the background of the sanctions and crisis environment of the world economy. Thus, the significance of the financial stabilisation of the Kyrgyz market situation and the

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growth of its favourability for the improvement of economic activities in the country increased. In the modern Kyrgyz Republic, the horizon of strategic planning until 2040 has been selected, because this year is given as the final of the current national initiative of economic growth and development (President of the Kyrgyz Republic, 2025).

The problem is insufficient coordination of the state & regulatory and private & commercial segments in Kyrgyzstan's financial system. This brings the considered system into a state of imbalance, in which it is not stable. State financial management in Kyrgyzstan, which largely aims at the regulation of foreign economic connections and relations, provides restricted resource support for the acceleration of economic activities, including subsidies. In turn, the private & investment sector finances only some projects of economic development, due to which other projects receive insufficient financing and cannot be completed.

The main reason for poor coordination of the segments of the Kyrgyz financial system consists in insufficient strength of the scientific and methodological support of ordering these elements. The mechanism of functioning of Kyrgyzstan's financial economy sees complex inter-budgetary relations as internal – among the levels of the country's budgetary system, and external – between Kyrgyzstan and foreign financial organisations. However, scholarly works insufficiently elaborate on the issue of how the organisation of inter-budgetary relations influences the sustainability of the Kyrgyz financial system. Thus, it is relevant to prepare a model of the sustainable development of Kyrgyzstan's financial economy with the optimisation of regulation of inter-budgetary relations. This is the goal of the presented paper.

2. LITERATURE REVIEW

Using the existing scientific concept of a financial economy, the fundamentals of which are given in the works by Popkova and Ergasheva (2024) and Salnazaryan et al. (2022), this paper treats sustainable development of the financial economy as its stability, reliability, and favourability for the progress of the national economy. According to the published works, the criteria for the sustainability of financial economy development are as follows:

- Confidence in the strengthening of the official international exchange rate of the national currency, which is a sign of the growth of production capacities of the national economy (Bezrukova et al., 2016);
- Deflation, which raises the affordability of goods and services in the economy (Atoyev et al., 2022);
- The inflow of foreign direct investments in the economy, which raises the accessibility of external financial resources and expands the opportunities for the development of production and other economic activities (Yuldashev et al., 2023);

- The reduction of the share of unsecured bank loans, which is a sign of successfulness of the fight and prevention of the emergence of financial bubbles in the national economy (Morhachov et al., 2024).

The existing publications also enumerate the main tools for regulating inter-budgetary relations in the modern financial economy. They include the following:

- Optimisation of government debt burden (Kusakina et al., 2016);
- Increase in the country's reserve fund for covering the government's liabilities (Glavina, 2024);
- An increase in the competitiveness of the national financial economy (Nosirov et al., 2023);
- Growth of the quality of state management of the economy (Polovtsev et al., 2023);
- Raising the effectiveness of fiscal state regulation of the economy (Bogoviz et al., 2017).

However, the influence of the regulation of inter-budgetary relations on the sustainability of the financial economy is not fully covered by previous scientific studies, due to which it remains unknown. Special attention should be paid to the financial system of Kyrgyzstan. Its specific feature is the fact that the Kyrgyz economy belongs to the regions of Central Asia and the category of developing countries; the experience of these countries is least studied in available publications.

The revealed literature gap predetermined the research questions of this paper: how to achieve the sustainable development of Kyrgyzstan's financial economy through optimisation of inter-budgetary relations regulation? In this paper, we try to find the answer to this research question.

3. MATERIALS AND METHODOLOGY

This research is conducted based on the statistical data (Table 1) on the Kyrgyz financial economy for the last two decades (2004-2023) and consists of two consecutive steps. In the first stage, a model of sustainability of the financial economy of Kyrgyzstan depending on the regulation of inter-budgetary relations is compiled. The method of trend analysis is used to perform a complex monitoring of the sustainability of Kyrgyzstan's financial economy, which allows revealing the trends of its development for the last 17 years (2005-2023).

Also, at the first stage, the method of regression analysis is used to determine the dependence of the level of compliance with the criteria of sustainability of financial economy development – official international exchange rate of the national currency (SF₁, World Bank, 2025h), inflation of GDP (SF₂, World Bank, 2025g), net inflow of foreign direct investments (SF₃, World Bank, 2025f), and the share of unsecured bank loans (SF₄, World Bank, 2025a) – on the level of application of the tools for regulating inter-budgetary relations in the financial economy: government debt burden (Icbr₁, World Bank, 2025b), reserve fund (Icbr₂, World Bank, 2025i), competitiveness of the national financial economy (Icbr₃, World Bank, 2025c), quality of public administration

(Icbr₄, World Bank, 2025e), and effectiveness of fiscal state regulation of the economy (Icbr₅, World Bank, 2025d).

Table 1. Regulation of inter-budgetary relations and the sustainability of the financial economy in Kyrgyzstan in 2004-2023

Year	Criteria of financial economy sustainability				Tools for regulating inter-budgetary relations				
	Official exchange rate (LCU per US\$, period average)	Inflation, GDP deflator (annual %)	Foreign direct investment, net inflows (млрд BoP, current US\$)	Bank nonperforming loans to total gross loans (%)	CPIA debt policy rating (1=low to 6=high)	Total reserves (% of total external debt)	CPIA financial sector rating (1=low to 6=high)	CPIA quality of public administration rating (1=low to 6=high)	CPIA quality of budgetary and financial management rating (1=low to 6=high)
	SF ₁	SF ₂	SF ₃	SF ₄	Icbr ₁	Icbr ₂	Icbr ₃	Icbr ₄	Icbr ₅
2004	42.65	5.11	0.18	14.78	4.00	22.05	3.50	2.50	3.00
2005	41.01	7.13	0.04	14.78	4.00	27.14	3.50	2.50	3.00
2006	40.15	9.39	0.18	14.78	4.00	31.48	3.50	3.00	3.00
2007	37.32	14.88	0.21	14.78	4.00	40.87	3.50	3.00	3.00
2008	36.57	22.22	0.38	14.78	4.00	33.77	3.50	3.00	3.50
2009	42.90	4.04	0.19	14.78	4.00	38.47	3.00	3.00	3.50
2010	45.96	10.03	0.47	14.78	4.00	41.77	3.00	3.00	3.50
2011	46.14	22.48	0.69	9.40	4.00	33.34	3.00	3.00	3.50
2012	47.00	8.66	0.26	6.55	4.00	34.24	3.00	3.00	3.50
2013	48.44	3.18	0.61	5.09	4.00	32.84	3.00	3.00	3.50
2014	53.65	8.42	0.34	4.18	4.00	26.87	3.00	3.00	3.50
2015	64.46	3.43	1.14	6.74	4.00	23.03	3.00	3.00	3.50
2016	69.91	6.05	0.62	8.52	4.00	24.68	3.00	3.00	3.50
2017	68.87	6.33	-0.11	7.37	4.00	26.78	3.00	3.00	3.50
2018	68.84	3.45	0.14	7.30	4.00	26.42	3.00	3.00	3.50
2019	69.79	9.81	0.40	7.73	4.00	28.73	3.00	3.00	3.50
2020	77.35	5.34	-0.40	10.09	4.00	32.41	3.00	3.00	3.50
2021	84.64	15.99	0.23	10.82	4.00	32.92	3.00	3.00	3.50
2022	84.12	19.66	0.05	12.45	4.00	28.71	3.00	3.00	3.00
2023	87.86	13.42	0.49	12.45	4.50	32.00	3.00	3.00	3.00

Source: Compiled by the authors based on the World Bank (2025a), World Bank (2025b), World Bank (2025c), World Bank (2025d), World Bank (2025e), World Bank (2025f), World Bank (2025g), World Bank (2025h), World Bank (2025i)

The second stage consists in revealing the perspective of the sustainable development of Kyrgyzstan's financial economy with the optimisation of regulation of inter-budgetary relations. Here two alternative forecasts for the horizon of strategic planning in Kyrgyzstan (by 2040) are prepared. The first forecast reflects the perspective of the preservation of the status quo until 2040. Its formation

involves determining the growth of the values of the indicators Icbr₁₋₅ for the last 17 years (2006-2023).

This growth is set on the basis of the author's forecast, and the obtained values of factor variables are inserted into the regression model. The second forecast shows the best way to change the status quo in Kyrgyzstan's financial economy through the optimisation of regulation of inter-budgetary relations in it. To prepare this forecast,

the auto-selection method is used to find the optimal combination of the indicators $Icbr_{1-5}$, at which values of all resulting variables SF_{1-4} in the regression model are improved.

4. RESULTS

4.1. The model of sustainability of Kyrgyzstan's financial economy depending on inter-budgetary relations regulation

The executed trend analysis of the sustainability of Kyrgyzstan's financial economy revealed the following trends of its development for the recent 17 years:

- Weakening of the official international exchange rate of the national currency – i.e., an increase of 118.80%, from 40.15 LCU per US\$ in 2005 to 87.86 LCU per US\$ by 2023;

$$SF_1 = 164.44 - 27.73Icbr_1 - 1.24Icbr_2 - 54.10Icbr_3 + 28.66Icbr_4 - 28.41Icbr_5, \quad (1)$$

$$SF_2 = -65.27 + 3.55Icbr_1 + 0.22Icbr_2 + 7.88Icbr_3 + 15.67Icbr_4 - 4.99Icbr_5,$$

$$SF_3 = -6.34 + 0.82Icbr_1 - 0.01Icbr_2 + 0.27Icbr_3 + 0.39Icbr_4 + 0.51Icbr_5,$$

$$SF_4 = 7.35 + 1.87Icbr_1 + 0.35Icbr_2 + 5.70Icbr_3 - 5.95Icbr_4 - 4.56Icbr_5.$$

The model (1) demonstrated that optimisation of government debt burden in Kyrgyzstan by 1 point contributes to the growth of the net inflow of foreign direct investments in the economy by \$0.82 billion. An increase in the ratio of the country's reserve fund to government debt of 1% leads to the strengthening of the official international exchange rate of the national currency, i.e., the reduction by 1.24 LCU per US\$.

An increase in the competitiveness of the national financial economy by 1 point ensures strengthening of the official international exchange rate of the national currency, i.e., the reduction by 54.10 LCU per US\$, and growth of the net inflow of foreign direct investments in the economy by \$0.27 billion. Growth of the quality of state management of the economy by 1 point is accompanied by an increase in net inflow of foreign direct investments in the economy of \$0.39 billion and a decrease in the share of unsecured bank loans of 5.95%. An increase in the effectiveness of fiscal state regulation of the economy of 1 point leads to a strengthening of the official international exchange rate of the national currency, i.e., reduction by 28.41 LCU per US\$, deflation of GDP by 4.99%, growth of the net inflow of foreign direct investments in the economy by \$0.51 billion, and reduction of the share of unsecured bank loans by 4.56%.

Thus, the regression model (1) demonstrated that optimisation of inter-budgetary relations regulation makes a significant contribution to the sustainable development of Kyrgyzstan's financial economy.

4.2. Perspective of the sustainable development of Kyrgyzstan's financial economy with the optimisation of inter-budgetary relations regulation

To reveal the perspective of the sustainable development of Kyrgyzstan's financial economy with the optimisation

- Inflation of GDP by 42.89%: from 9.39% in 2005 to 13.42% by 2023;
- Growth of the net inflow of foreign direct investments in the economy by 169.20%: from \$0.18 billion in 2005 to \$0.49 billion by 2023;
- Reduction of the share of unsecured bank loans by 15.72%: from 14.78% in 2005 to 12.45% by 2023.

As a result of the regression analysis of the statistics from Table 1, we revealed the dependence of the level of compliance with the criteria of sustainability of financial economy development on the level of using the tools for regulating inter-budgetary relations in the financial economy. The obtained model of the sustainability of Kyrgyzstan's financial economy depending on the regulation of inter-budgetary relations takes the following form:

of inter-budgetary relations regulation, we use the model (1) and compile two alternative scenarios for the horizon of strategic planning in Kyrgyzstan – by 2040. The first forecast shows the perspective of preservation of the status quo by 2040 (Figure 1).

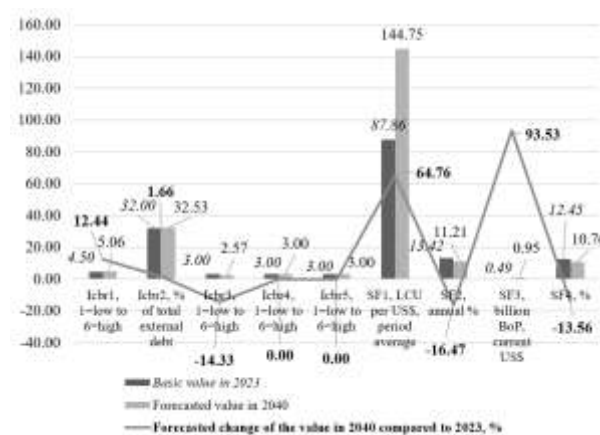


Figure 1. The forecast of the sustainability of Kyrgyzstan's financial economy with the preservation of the status quo of inter-budgetary relations by 2040
Source: Calculated and compiled by the authors

As shown in Figure 1, in case of the preservation of the status quo of inter-budgetary relations by 2040, the growth of the values of the indicators $Icbr_{1-5}$ for the last 17 years (2005-2023) will continue in the next 17 years (2023-2040). In this case, the activity of regulating inter-budgetary relations in Kyrgyzstan will change in the following way, i.e., the following will take place:

- Optimisation of government debt burden by 12.44%: from 4.50 points in 2023 to 5.06 points by 2040;

- An increase in the ratio of the country's reserve fund to government debt of 1.66%: from 32.00% in 2023 to 32.53% by 2040;
- Reduction of the competitiveness of the national financial economy by 14.33%: from 3.00 points in 2023 to 2.57 points by 2040;
- Preservation of the quality of state management of the economy at the 2023 level (3.00 points);
- Preservation of the effectiveness of fiscal state regulation of the economy at the 2023 level (3.00 points).

The obtained values of the factor variables $Icbr_{1-5}$ are inserted into the regression model. According to the described forecast, the following change in the sustainability of Kyrgyzstan's financial economy is expected:

- Weakening of the official international exchange rate of the national currency, i.e., an increase of 64.76 %: from 87.86 LCU per US\$ in 2023 to 144.75 LCU per US\$ by 2040;
- GDP deflation by 16.47%: from 13.42 % in 2023 to 11.21% by 2040;
- Growth of the net inflow of foreign direct investments in the economy by 96.53 %: from \$0.49 billion in 2023 to \$0.95 billion by 2040;
- Reduction of the share of unsecured bank loans by 13.56 %: from 12.45 % in 2023 to 10.76 % by 2040.

Therefore, maintaining the status quo of inter-budgetary relations cannot fully ensure the sustainability of Kyrgyzstan's financial economy by 2040, which makes the considered forecast unattractive. The alternative is the second forecast, which reflects the best way to change the status quo in Kyrgyzstan's financial economy by optimising the regulation of inter-budgetary relations in it. This forecast is shown in Figure 2.

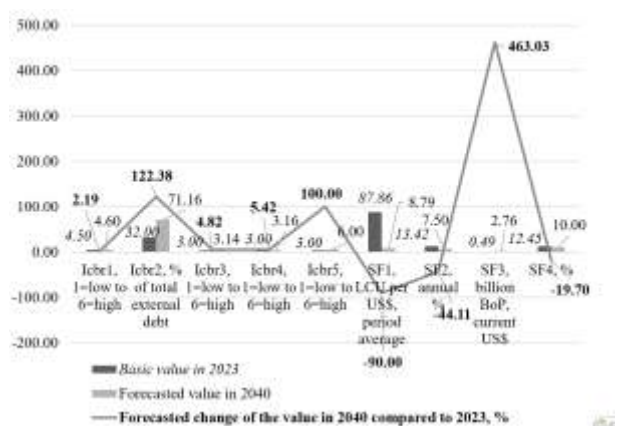


Figure 2. Forecast of the sustainability of Kyrgyzstan's financial economy with the optimisation of inter-budgetary relations by 2040

Source: Calculated and created by the authors

According to Figure 2, the following recommendations are offered for the optimisation of inter-budgetary relations regulation in Kyrgyzstan:

- Optimisation of government debt burden by 2.19 %: from 4.50 points in 2023 to 4.60 points by 2040;

- Raising the ratio of the country's reserve fund to government debt by 122.38 %: from 32.00 % in 2023 to 122.38% by 2040;
- Raising the competitiveness of the national financial economy by 4.82 %: from 3.00 points in 2023 to 3.14 points by 2040;
- Growth of the quality of state management of the economy by 5.42 %: from 3.00 points in 2023 to 3.16 points;
- Raising the effectiveness of fiscal state regulation of the economy by 2 times: from 3.00 points in 2023 to 6.00 points by 2040.

Implementation of the authors' recommendations as per the forecast will ensure the following advantages to strengthen the sustainability of Kyrgyzstan's financial economy:

- Strengthening of the official international exchange rate of the national currency, i.e., reduction by 90.00 %: from 87.86 LCU per US\$ in 2023 to 8.79 LCU per US\$ by 2040;
- GDP deflation by 44.11 %: from 13.42% in 2023 to 7.50% by 2040;
- Growth of the net inflow of foreign direct investments in the economy by 463.03 %: from \$0.49 billion in 2023 to \$2.76 billion by 2040;
- Reduction of the share of unsecured bank loans by 19.70%: from 12.45% in 2023 to 10.00% by 2040.

Thus, a comparison of alternative forecasts showed that optimisation of the regulation of inter-budgetary relations is required and necessary in Kyrgyzstan. Its implementation according to the scientifically justified recommendations from the authors will allow for a significant increase in the sustainability of the country's financial economy on the horizon of strategic planning until 2040.

5. DISCUSSION

The authors' conclusions contribute to the development of the literature by Popkova and Ergasheva (2024) and Salnazaryan et al. (2022), supplementing the concept of financial economy with an improved understanding of how to achieve the sustainable development of Kyrgyzstan's financial economy through the optimisation of inter-budgetary relations regulation (Table 1 2).

The results obtained continue the series of research by Atoyan et al. (2022), Bezrukova et al. (2016), Morhachov et al. (2024), and Yuldashev et al. (2023), specifying the essence and scale of the influence of the regulation of inter-budgetary relations on the sustainability of financial economy by the example of Kyrgyzstan. In support of Bogoviz et al. (2017), it was identified that an increase in the effectiveness of fiscal regulation of the economy systemically supports the sustainable development of the financial system.

Unlike Kusakina et al. (2016), it was proven that the optimisation of government debt burden makes a small contribution to the sustainable development of the

financial system, stimulating only the inflow of foreign direct investments in the economy. Unlike Glavina (2024), it was revealed that an increase in the country's reserve fund poorly supports the sustainability of the

financial system, ensuring only the strengthening of the official international exchange rate of the national currency.

Table 2. The influence of regulation of inter-budgetary relations on the financial economy sustainability

Tools for regulating inter-budgetary relations in the financial economy	Representation in the literature	Contribution to the sustainability of the financial economy (regression)			
		Strengthening of national currency exchange rate	Deflation	The inflow of foreign direct investments in the economy	Reduction of the share of unsecured bank loans
Optimisation of government debt burden	Kusakina et al. (2016)	absent	absent	present (0.82)	absent
Increase in the country's reserve fund	Glavina (2024)	present (-1.24)	absent	absent	absent
Improvement of the competitiveness of the national financial economy	Nosirov et al. (2023)	present (-54.10)	absent	present (0.27)	absent
Growth of the quality of state management of the economy	Polovtsev et al. (2023)	absent	absent	present (0.39)	present (-5.95)
Increase in the effectiveness of fiscal regulation of the economy	Bogoviz et al. (2017)	present (-28.41)	present (-4.99)	present (0.51)	present (-4.56)

Source: Authors

Unlike Nosirov et al. (2023), it was proven that even though the growth of the competitiveness of the national financial economy makes a significant contribution to the sustainable development of the financial system, it does not facilitate deflation and reduction of the share of unsecured bank loans. Contrary to Polovtsev et al. (2023), it was established that even though the growth of the quality of state management of the economy supports the sustainable development of the financial system, it does not ensure the strengthening of the official international exchange rate of the national currency and deflation.

6. CONCLUSION

Thus, the goal was achieved – we developed a model of the sustainable development of Kyrgyzstan's financial economy with the optimisation of regulation of inter-budgetary relations, which includes, first, the established economic and mathematical dependencies of sustainability of the financial economy of Kyrgyzstan on the regulation of inter-budgetary relations. Second, alternative forecasts of the sustainability of the financial economy of Kyrgyzstan with various regulations of inter-budgetary relations until 2040.

Third, scientific and practical recommendations to optimise the regulation of inter-budgetary relations in Kyrgyzstan. The theoretical significance of the results obtained and the authors' conclusions, based on them, is that they strengthen the scientific and methodological

support of coordination of regulatory and private & commercial segments of the Kyrgyz financial system.

The practical significance of the authors' solutions is that the revealed perspective of the sustainable development of Kyrgyzstan's financial economy with the optimisation of regulation of inter-budgetary relations outlined the control benchmarks of this optimisation and will allow for successful practical implementation of the national initiative of economic growth and development (President of the Kyrgyz Republic, 2025).

These benchmarks are optimisation of government debt burden by 2.19%, growth of the ratio of the country's reserve fund to government debt by 122.38%, improvement of the competitiveness of the national financial economy by 4.82%, growth of the quality of state management of the economy by 5.42%, and an increase in the effectiveness of fiscal state regulation of the economy by 2 times.

Application of the formulated recommendations in the economic practice of Kyrgyzstan, according to the given forecasts, will be accompanied by the following advantages for the financial economy in the form of an increase in its sustainability: strengthening of the official international exchange rate of the national currency, i.e., reduction by 90,00%, GDP deflation by 44.11%, growth of net inflow of foreign direct investments in the economy by 463.03%, and reduction of the share of unsecured bank loans by 19.70%.

Thus, the conclusion is that sustainable development of Kyrgyzstan's financial economy on the horizon of strategic planning until 2040 requires optimisation of inter-budgetary relations regulation, which can be performed with the help of the authors' recommendations.

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