

## ECONOMIC FOUNDATIONS FOR IMPROVEMENT OF TAX POLICY IN DIGITAL ECONOMY

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### ABSTRACT

*The research relevance is determined by the need to form an effective tax system that ensures economic growth, investment attraction and improvement of living standards. The study aimed to identify the economic foundations and directions for improving tax policy in the context of digitalisation to ensure sustainable economic growth, increase investment attractiveness and efficiency of tax administration. To achieve this goal, methods of theoretical analysis, comparative analysis, statistical method, expert evaluation method and system analysis were used. The study analysed the theoretical aspects of tax policy and its role in ensuring sustainable economic development. The study determined that the high tax burden on businesses and individuals is a barrier to development and investment activity, which slows down economic growth and restrains production potential. Administrative difficulties and bureaucratic obstacles in tax administration were also noted, which reduces the efficiency of tax authorities and increases transaction costs. Insufficient digitalisation of tax processes limits their transparency and efficiency. Measures are proposed to*

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*reduce the tax burden, simplify procedures and introduce information and communication technologies into administration. Implementation of these measures will increase transparency, reduce bureaucracy and create a better business environment. In summary, reforming tax policy and administration is necessary to stimulate economic growth, improve the investment climate and increase the competitiveness of the economy on the international stage. The results obtained can be used by public authorities in developing tax reforms, by entrepreneurs to optimise tax planning, and in the educational process when training specialists in economics, taxation and finance.*

**Key words:** *fiscal policy, digitalisation of the economy, investment climate, tax regulation, financial stability, budget.*

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## 1. INTRODUCTION

The development of an effective, balanced and adaptive tax policy is a key factor for sustainable economic growth in the context of globalisation, digitalisation of the economy and financial instability. The tax system should not only ensure stable budget revenues, but also stimulate investment activity, entrepreneurship and social justice. Modern challenges, including a high tax burden, shadow economy and complexity of tax administration, require the development of new regulatory approaches based on international experience and the introduction of digital technologies, which helps to increase transparency, reduce corruption risks and strengthen the competitiveness of the national economy.<sup>1</sup>

I. Gil Rodríguez<sup>2</sup> analysed the development of integrated digital services in the state tax authorities. The paper examined modern tools for digital support of taxpayers that increase the transparency and efficiency of tax administration, which is a key factor in improving the efficiency of the fiscal system. At the same time, the study focuses on theoretical models and does not address the problems of adapting technologies to the local conditions of developing countries. This study complements this by analysing the practical challenges of implementing digital solutions in the Kyrgyz tax system.

O. Maslii and A. Maksymenko<sup>3</sup> addressed the impact of digital transformation and the process of deindustrialisation on the financial security of the state. The

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<sup>1</sup> Shirdakova, G. et al.: Digitisation of public procurement as a factor of economic security and regional development in the Kyrgyz Republic, *Scientific Bulletin of Mukachevo State University. Series "Economics"*, 12(2) 2025, pp. 34-47.

<sup>2</sup> Gil Rodríguez, I.: Integral digital assistance administrations in the State Tax Administration Agency, *Cronica Tributaria*, 1(190) 2024, pp. 37-77.

<sup>3</sup> Maslii, O., Maksymenko, A.: Digital transformation and economic deindustrialisation: impact on state financial security, *Financial and Credit Activity: Problems of Theory and Practice*, 1(60) 2025, pp. 401-414.

study determined that digitalisation is changing the structure of the economy and requires the adaptation of fiscal policy to ensure stability and protection of public finances in the context of economic transformation. The study has limited emphasis on macroeconomic effects without a detailed consideration of specific tax administration mechanisms. This study addressed the practical aspects of digitalisation of tax procedures and the fight against administrative barriers in the tax sphere.

P.M. Palacios<sup>4</sup> conducted a critical analysis of electronic tax administration, identifying the main opportunities and challenges associated with the digitalisation of tax processes. The author focused on the potential to increase transparency and reduce corruption risks through the introduction of electronic services. However, the study mainly addressed theoretical aspects without in-depth empirical analysis of local problems of digital systems implementation in developing countries. This study offers specific recommendations for overcoming administrative barriers and adapting digital technologies in the tax system of Kyrgyzstan.

S.M. Srapilov et al.<sup>5</sup> considered the problems of improving public administration in the context of digitalisation and informatisation, emphasising the need to integrate modern information technology (IT) solutions to improve the efficiency of public institutions. The study analysed the general trends and challenges of digital transformation but limited its review to the specifics of tax administration and the impact of these processes on fiscal security. This study fills this gap by examining in detail the impact of digitalisation on tax administration and proposing mechanisms to improve the efficiency and transparency of tax policy in an emerging economy.

P. Čerka et al.<sup>6</sup> analysed the tax challenges posed by digitalisation and assessed the models of taxation of the digital economy proposed by the European Commission and the Organisation for Economic Co-operation and Development (OECD). The study emphasised the need to adapt international tax standards to new forms of economic activity to ensure fair and efficient taxation. However, their analysis is limited to the European region and does not cover the specifics of tax policy in Central Asia. In contrast, this study focuses on adapting

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<sup>4</sup> Palacios, P. M.: E-Tax administration: critical appraisal of opportunities and challenges, *Cronica Tributaria*, 2(187) 2023, pp. 43-66.

<sup>5</sup> Srapilov, S. M. et al.: Problems of improving public administration in the context of digitalisation and informatisation, *Electronic Government*, 19(5) 2023, pp. 586-606.

<sup>6</sup> Čerka, P., Grigienė, J., Venslovaitytė, K.: Tax Challenges Arising from Digitalization: Evaluating the Taxation Models Proposed by the European Commission and the OECD, *Review of European and Comparative Law*, 58(3) 2024, pp. 99-116.

international experience to the realities of Kyrgyzstan and developing recommendations based on local economic and institutional features.

While previous studies examined the impact of digitalisation on tax systems, most focused on developed economies or general theoretical models, leaving a significant gap in practical applications for emerging economies like Kyrgyzstan. The contribution of this paper lies in its practical analysis of the specific issues faced by Kyrgyzstan's tax system, including the need for digital transformation, simplification of procedures, and reducing administrative barriers, with a special focus on the role of digitalisation in improving tax efficiency and transparency. The study aimed to comprehensively analyse the economic foundations for improving tax policy in the digital economy, identify key problems of the tax system and formulate directions for its optimisation to stimulate economic growth, increase investment attractiveness and improve the efficiency of tax administration. To achieve this goal, the following objectives were set:

- to conduct a systematic review of the theoretical foundations of tax policy and assess its impact on economic development;
- to conduct an analytical review of the current state of the tax system and identify its main shortcomings;
- to identify key challenges and promising areas of tax regulation in the context of current economic realities;
- to develop practical recommendations for improving tax policy aimed to reduce the tax burden, optimise tax administration and stimulate business activity.

## **2. THEORETICAL FRAMEWORK**

The theoretical framework for this study draws on key concepts and theories related to tax policy, digitalisation, and economic development. The framework is designed to address the core challenges of improving tax systems in the context of digitalisation, as well as to explore the implications of these changes on economic growth and public administration.

A central theoretical model is based on macroeconomic theories of taxation and its impact on economic growth. This model postulates that tax policy plays a significant role in determining the investment climate, redistributing wealth, and stimulating entrepreneurial activity.<sup>7</sup> By focusing on fiscal policy as a tool for economic stabilisation, the framework aligns with previous stud-

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<sup>7</sup> Auerbach, A. J.: Measuring the effects of corporate tax cuts, *Journal of Economic Perspectives*, 32(4) 2018, pp. 97-120.

ies that emphasize the interdependence between tax rates, public investment, and economic output.<sup>8,9</sup>

In the context of digitalisation, our framework integrates theories from the digital economy to examine how technology can enhance tax administration efficiency, reduce corruption, and increase transparency. The works of Gil Rodríguez<sup>10</sup> and Palacios<sup>11</sup> on digital tax systems provide foundational insights into the opportunities and challenges of implementing e-tax solutions, such as online tax payments, electronic filings, and Big Data analytics. These digital tools are critical in reducing administrative burdens and promoting fiscal accountability.

The framework also incorporates regulatory and institutional theories to explore the challenges of tax administration in the Kyrgyz Republic. This includes a review of the institutional barriers that hinder efficient tax collection and the adaptation of international best practices for local conditions.<sup>12</sup> The theory of institutional change, particularly the role of state capacity in enforcing tax laws, is relevant to understanding the necessary reforms in Kyrgyzstan's tax system.

Lastly, globalisation theories, especially those related to international tax competition and cross-border tax harmonization,<sup>13</sup> inform the framework by highlighting the need for Kyrgyzstan to adjust its tax policy to attract foreign investments and comply with international tax standards such as those advocated by the OECD.<sup>14</sup>

This theoretical framework provides a comprehensive basis for understanding the key aspects of tax policy, digitalisation, and economic development. By integrating macroeconomic theories, digital economy models, regulatory and institutional theories, and globalisation concepts, the framework highlights the

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<sup>8</sup> Khanova, O. et al.: State budget system improvement for informed decision-making in Latvia, *Scientific Bulletin of Mukachevo State University. Series Economics*, 11(3) 2024, pp. 86-99.

<sup>9</sup> Ihnatenko, M., Kotsur, V., Aranchii, V.: Development of e-commerce in the context of digitalisation of social life, *University Economic Bulletin*, 18(3), 2023, pp. 84-90.

<sup>10</sup> Gil Rodríguez, I.: Integral digital assistance administrations in the State Tax Administration Agency, *Cronica Tributaria*, 1(190) 2024, pp. 37-77.

<sup>11</sup> Palacios, P. M.: E-Tax administration: critical appraisal of opportunities and challenges, *Cronica Tributaria*, 2(187) 2023, pp. 43-66.

<sup>12</sup> Baimagambetov, A., Omirbayev, S.: Progressive tax development in the taxation system: a comparative analysis of the EU and Central Asian countries, *Retos*, 2025, pp. 131-148.

<sup>13</sup> Čerka, P., Grigienė, J., Venslovaitytė, K.: Tax Challenges Arising from Digitalization: Evaluating the Taxation Models Proposed by the European Commission and the OECD, *Review of European and Comparative Law*, 58(3) 2024, pp. 99-116.

<sup>14</sup> Organisation for Economic Co-operation and Development (OECD): *Revenue Statistics in Asia and the Pacific 2024: Tax Revenue Buoyancy in Asia*, Paris: OECD Publishing, 2024.

interdependence between tax policy and economic growth, the role of technology in enhancing tax administration, and the need for Kyrgyzstan to adapt its tax system to international standards. This approach not only outlines the theoretical foundations of the study but also paves the way for identifying practical solutions to address the challenges facing Kyrgyzstan's tax policy in the context of digitalisation.

### 3. MATERIALS AND METHODS

This section describes the research methods and materials used to analyse the tax policy of the Kyrgyz Republic. The study used both theoretical and empirical methods, which ensured a comprehensive approach to the study of the issues under consideration. The research materials included legislative and regulatory acts of the Kyrgyz Republic: The Tax Code of the Kyrgyz Republic<sup>15</sup>, Resolution of the Cabinet of Ministers of the Kyrgyz Republic No. 687 "On Measures to Implement the Requirements of Article 107 of the Tax Code of the Kyrgyz Republic"<sup>16</sup>, official statistics, analytical reports of international organisations (World Bank, International Monetary Fund).

The method of theoretical analysis was used to study scientific publications, monographs and legal acts of the Kyrgyz Republic regulating taxation. This method was used to analyse the key concepts of tax policy, its role in economic development, as well as international experience of tax regulation. The method of comparative analysis compared the tax system of the Kyrgyz Republic with the tax systems of other countries. This method was used to study the differences in tax rates, the structure of tax revenues, as well as in the mechanisms of tax administration and their impact on business activity.

The statistical method collected, processed and analysed quantitative data characterising the state and dynamics of the tax system of Kyrgyzstan. The key indicators used were the share of tax revenues in gross domestic product (GDP),<sup>17,18</sup> the structure of tax revenues divided into direct and indirect taxes,

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<sup>15</sup> CIS Legislation: Tax Code of the Kyrgyz Republic of January 18, 2022, 22.12.2022.

<sup>16</sup> Ministry of Justice of the Kyrgyz Republic: *Resolution of the Cabinet of Ministers of the Kyrgyz Republic No. 687 "On Measures to Implement the Requirements of Article 107 of the Tax Code of the Kyrgyz Republic"*, Bishkek: Ministry of Justice of the Kyrgyz Republic, 16.12.2022.

<sup>17</sup> National Statistical Committee of the Kyrgyz Republic: *Finance*, Bishkek, 2025, <<https://www.stat.gov.kg/en/statistics/finansy/>>, last accessed on 13/8/2025.

<sup>18</sup> National Statistical Committee of the Kyrgyz Republic: *Prices and Tariffs*, Bishkek, 2025. <<https://www.stat.gov.kg/en/statistics/ceny-i-tarify/>>, last accessed on 27/7/2025.

the level of tax burden on businesses and individuals, and the dynamics of tax revenues in recent years. Additionally, the analysis includes the shadow economy index provided by the World Bank Group.<sup>19</sup> The Statistical Package for the Social Sciences (SPSS) version 20 software was used for data processing and statistical analysis, which ensured the reliability and objectivity of the results.

The method of expert assessments included semi-structured interviews and questionnaires conducted with 30 qualified specialists. These specialists were selected from key organisations such as the Ministry of Finance of the Kyrgyz Republic, the State Tax Service, the Chamber of Commerce and Industry, and independent economists. The respondents were chosen based on their expertise in tax administration, fiscal policy, and economic development in Kyrgyzstan. The selection process involved purposive sampling to ensure that the experts had relevant experience and knowledge of the country's tax system. The interviews were conducted in-person and via video conference over a two-month period. Each interview lasted approximately 45 minutes and was guided by a set of open-ended questions designed to explore the challenges faced by the tax system, assess the effectiveness of current reforms, and solicit recommendations for improvements. During the interviews, participants were encouraged to elaborate on their experiences with tax administration, the role of digitalisation, and the impact of tax policy on business activities.

Furthermore, the study used a systemic analysis, which addressed tax policy as a complex system of interrelated elements, including government regulation, the impact of taxes on economic development and the social sphere. As part of the systemic analysis, the relationship between the tax burden, budget revenues and the level of business activity was assessed. Thus, according to the National Statistical Committee of the Kyrgyz Republic,<sup>20</sup> the reduction of the small business tax from 6% to 4% in 2021 contributed to a 12% increase in the number of registered entrepreneurs, which indicates a significant stimulating effect of tax policy.

#### 4. RESULTS AND DISCUSSION

Tax policy is a system of strategic and tactical decisions made by the state in relation to taxation to regulate economic processes. In the theoretical context, tax policy serves as a tool for implementing the state's socio-economic

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<sup>19</sup> World Bank Group: *Informal Economy Database*, Washington: World Bank Group, 09.01.2024.

<sup>20</sup> National Statistical Committee of the Kyrgyz Republic: *Finance*, Bishkek, 2025, <<https://www.stat.gov.kg/en/statistics/finansy/>>, last accessed on 13/8/2025.

strategy, influencing economic growth, income redistribution, investment attractiveness and social justice. According to K. Tynaliev et al.,<sup>21</sup> the main elements of tax policy are tax rates, the structure of tax revenues, administration mechanisms, and the system of exemptions and exemptions. At the same time, tax policy can pursue various goals, such as stimulating economic growth, redistributing income and improving social justice.

The main theoretical approaches to research on tax policy are based on macroeconomic and microeconomic theories. As noted by A. Ya'u et al.,<sup>22</sup> the macroeconomic approach considers taxes primarily as a tool for ensuring the sustainability of the state budget and creating a favourable economic environment for the development of the national economy. At the same time, the microeconomic approach, according to H. M. L. Utouh and F. A. Kitole,<sup>23</sup> emphasises the role of tax policy as a factor that stimulates or restrains entrepreneurial activity at the level of individual sectors and business structures. In modern environment of growing economic instability, inflation and rising public debt, the importance of fiscal policy is growing significantly, as it is becoming a key tool for macroeconomic stabilisation. Following S. D. Zholdoshbekova,<sup>24</sup> an effective combination of fiscal instruments and monetary policy minimises macroeconomic imbalances, increases the national investment attractiveness and ensures sustainable development.

Tax policy has a multifaceted impact on the national economic development. A. Fialho et al.<sup>25</sup> emphasised that it affects a wide range of economic processes, including domestic and foreign investment, the level of entrepreneurial initiative, and social justice. Moreover, the study highlighted that in the context of globalisation and periodic financial crises, tax policy is becoming a key

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<sup>21</sup> Tynaliev, K. et al.: Modern vectors of development of the country's tax system: International experience, *Scientific Bulletin of Mukachevo State University. Series Economics*, 11(2) 2024, pp. 90-101.

<sup>22</sup> Ya'u, A. et al.: Effects of some macroeconomic variables on estimated tax evasion: evidence from Sub-Saharan Africa, *African Journal of Economic and Management Studies*, 15(4) 2024, pp. 587-601.

<sup>23</sup> Utouh, H. M. L., Kitole, F. A.: The impact of fiscal and monetary policy on economic growth and structural transformation in Tanzania, *Cogent Economics and Finance*, 13(1) 2025, pp. 2499013.

<sup>24</sup> Zholdoshbekova, S. D.: Theoretical Aspects and Key Components of Fiscal Policy, in *The World of Science and Education*, International Research Centre "Endless Light in Science", Astana, 2024, pp. 56-69.

<sup>25</sup> Fialho, A. et al.: Tax benefits as a tool for the promotion of the sustainable development goals: The case of the Iberian Foundations, *CIRIEC-Espana, Legal Journal of Social and Cooperative Economy*, 39 2021, pp. 241-277.

tool to ensure economic stability and adapt the national economy to external and internal challenges. In addition, the most substantial function of the tax system is to ensure the financial independence of the state and to finance social programmes such as healthcare, education and infrastructure projects.<sup>26</sup> Tax policy can significantly influence the behaviour of taxpayers, stimulating or restricting economic activity in the areas of consumption, investment and savings.

The scientific literature identifies several key functions of the tax system, each of them substantial in the economic mechanism. The fiscal function, as emphasised by S.S. Yesimov,<sup>27</sup> is to mobilise public finances to ensure public expenditures, including social needs and the functioning of government. The regulatory function of taxes is to adjust the economic processes of consumption, production and income distribution, creating conditions for balanced development. The redistributive function is to reduce social inequality by redistributing income and wealth. Lastly, the control function identifies the shadow economy and effectively regulates the labour market and other areas. S. Hodžić<sup>28</sup> noted that the digital economy requires rethinking traditional tax mechanisms and developing new adaptive approaches to taxation.

The connection between tax policy and economic growth is fundamental, as tax policy plays a crucial role in shaping the investment climate, redistributing wealth, and incentivizing entrepreneurial activity. A well-designed tax system provides governments with the necessary resources to finance public services and infrastructure, which in turn supports economic development.<sup>29</sup> Additionally, effective tax policies can create a stable and predictable environment that fosters both domestic and foreign investment, encourages innovation, and ensures social justice through equitable redistribution of wealth. The relationship between tax policy and economic growth is particularly evident in the context of macroeconomic stabilization, where the fiscal tools of tax policy help mitigate imbalances, such as inflation or budget deficits, while also stimulating

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<sup>26</sup> Kalambet, S. V., Zolotariova, O. V., Pivniak, Y. V.: Influence of households' finances in Ukraine on indicators of their mobility and socio-economic development of the state, *Naukovyi Visnyk Natsionalnoho Hirnychoho Universytetu*, 4 2016, pp. 130-140.

<sup>27</sup> Yesimov, S. S.: Administrative coercion in the field of taxes and fees, *Social and Legal Studios*, 5(1) 2022, pp. 35-40.

<sup>28</sup> Hodžić, S.: Tax Challenges in the Digital Economy: EU Perspective, in: Grima, S., Özen, E., Boz, H. (eds.): *The New Digital Era: Digitalisation, Emerging Risks and Opportunities*, Leeds: Emerald Publishing Limited, 2022, pp. 191-211.

<sup>29</sup> Aliyev, S. et al.: Effects of taxes on the development of the non-oil industry sector: The Case of Azerbaijan, *WSEAS Transactions on Business and Economics*, 20 2023, pp. 2400-2412.

investment and improving overall economic output.<sup>30</sup> The link between taxation and growth is also reflected in empirical studies which show that lower tax rates tend to stimulate business activity, increase employment, and encourage consumption, thus fostering economic growth.

Digitalization, when applied to tax policy, offers significant improvements in both efficiency and transparency. By introducing electronic tax filing systems, online payment platforms, and automated monitoring tools, governments can streamline the tax administration process, reduce bureaucratic hurdles, and minimize errors or fraud.<sup>31,32</sup> Digitalization also facilitates real-time tax collection and reporting, which increases the accuracy of tax revenue forecasts and improves the government's ability to combat evasion. The implementation of digital solutions, such as Big Data and blockchain technology, ensures greater transparency, reduces administrative costs, and enhances the overall performance of tax authorities.<sup>33</sup> Through these technologies, tax authorities can efficiently track financial transactions, identify discrepancies, and enforce tax compliance, thereby fostering a more transparent and accountable tax system.

There is a direct link between insufficient digitalization and the persistence of the shadow economy. When tax systems remain overly complex and opaque, it becomes easier for individuals and businesses to evade taxes, often by participating in the informal or shadow economy.<sup>34</sup> Without the tools to track and regulate digital transactions, tax authorities may struggle to monitor financial activity effectively, allowing tax evasion to flourish. The lack of digital infrastructure also leads to inefficiencies, such as delayed tax reporting, which can further incentivize businesses to remain outside the formal economy to avoid administrative burdens and excessive taxes.<sup>35</sup> In contrast, a fully digitalized

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<sup>30</sup> Shafa, A.: Historical aspects of economic thought in Azerbaijan, *Voprosy Istorii*, 8(2) 2021, pp. 148-155.

<sup>31</sup> Mukambaeva, I. et al.: Influence of the state investment budget on the Kyrgyz agricultural sector through data analysis, in: *Proceedings of SIST 2024 - 2024 IEEE 4th International Conference on Smart Information Systems and Technologies*, Astana: Institute of Electrical and Electronics Engineers, 2024, pp. 409-414.

<sup>32</sup> Leontyev, A., Ketners, K.: The improvement of decision-making in the Latvian tax system: Cases of irreducible incompatibility taking into account reliability, equity and efficiency criteria, *Intellectual Economics*, 17(2) 2023, pp. 322-343.

<sup>33</sup> Adamkulova, Ch. et al.: Digital farming platforms as a tool for strengthening cooperation between Kyrgyzstan and China: Potential and prospects, *Ekonomika APK*, 32(2) 2025, pp. 63-75.

<sup>34</sup> Rexhepi, B. R.: Impact of Remittances on Kosovo's Economic Development and Poverty Reduction, *Quality - Access to Success*, 24(195) 2023, pp. 347-359.

<sup>35</sup> Ketners, K., Jarockis, A., Petersone, M.: State budget system improvement for informed decision-making in Latvia, *Scientific Bulletin of Mukachevo State University. Series Economics*, 11(3) 2024, pp. 86-99.

tax system provides a more robust framework for tracking income and expenditures, reducing the opportunity for individuals and businesses to hide economic activity, and ultimately diminishing the size of the shadow economy.

A. Generalov and O. Generalova-Kutuzova<sup>36</sup> emphasised in their research that the tasks of simplifying tax procedures and creating an enabling environment for small and medium-sized businesses are particularly relevant for Kyrgyzstan, which correlates with the findings of A. Baimagambetov and S. Omirbayev<sup>37</sup> on the need to reduce the tax burden on this sector. Thus, the totality of these theoretical approaches forms a comprehensive framework for studying tax policy and its impact on economic development, as well as for developing recommendations for its improvement in the current environment.

Tax policy, being one of the key instruments for generating state budget revenues, has a direct impact on the financial stability of the state. Efficient tax administration and balanced taxation reduce fiscal risks associated with budget deficits, unpredictable fluctuations in tax revenues, and the expansion of the shadow economy.<sup>38,39</sup>

Tax policy is substantial for key macroeconomic indicators, including inflation, gross domestic product growth, employment, and external public debt. The results confirm the findings of K. Tynaliev et al.,<sup>40</sup> highlighting the need for tax policy flexibility in times of economic crises. In particular, lower tax rates stimulate investment and increase economic activity, while an increase in the tax burden causes a reduction in aggregate demand and a slowdown in economic growth, which is also reflected in the studies of C. U. Adamkulova and K. K. Tynaliev.<sup>41</sup>

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<sup>36</sup> Generalov, A., Generalova-Kutuzova, O.: Economics, legal, political and social environment of entrepreneurs in Kyrgyzstan, in: Ince-Yenilmez, M., Darici, B. (eds.): *Engines of Economic Prosperity: Creating Innovation and Economic Opportunities through Entrepreneurship*, Cham: Palgrave Macmillan, 2021, pp. 337-357.

<sup>37</sup> Baimagambetov, A., Omirbayev, S.: Progressive tax development in the taxation system: a comparative analysis of the EU and Central Asian countries, *Retos*, 15(29) 2025, pp. 131-148.

<sup>38</sup> Dzholdosbekova, S. D. et al.: Economic foundations for improving budget policy in modern economy: financial risks, *International Scientific Journal Science and Innovation*, 4(2) 2025, pp. 101-115.

<sup>39</sup> Demi, A. et al.: The impact of fiscal policies on Albanian economic growth: The case of value-added tax, *Journal of Governance and Regulation*, 10(4 Special issue) 2021, pp. 311-325.

<sup>40</sup> Tynaliev, K. et al.: Modern vectors of development of the country's tax system: International experience, *Scientific Bulletin of Mukachevo State University. Series Economics*, 11(2) 2024, pp. 90-101.

<sup>41</sup> Adamkulova, C. U., Tynaliev, K. K.: Influence of tax revenues on the economic growth of the country, *Proceedings on Engineering Sciences*, 5(2) 2023, pp. 431-438.

One of the key macroeconomic indicators influenced by tax policy is GDP. High tax rates can reduce business investment activity and slow down economic growth, while balanced taxation attracts investment and stimulates entrepreneurial activity. Table 1 presents data illustrating the relationship between GDP growth rates and tax rates in different countries, which can be used to trace the impact of tax policy on economic development.

**Table 1. Dynamics of indicators of socio-economic development of the KR in 2020-2024**

VALUES	2020	2021	2022	2023	2024
GDP, million KGS	639,688.6	782,854.3	1,020,744.6	1,333,730.0	1,523,235.8
Real growth rate, in % to the corresponding period of the previous year	92.9	105.5	109.0	109.0	109.0
including real growth rates, as a percentage of the corresponding period of the previous year					
Agriculture, hunting and forestry	100.9	95.5	107.3	100.6	106.3
Industry	93.5	106.5	111.9	104.8	105.6
Building	84.4	95.1	109.1	122.7	118.0
Service sector	92.1	106.9	106.8	107.9	109.3
Investments in fixed capital	75.7	93.8	104.0	129.2	124.8
<b>CONSUMER PRICE INDEX (CPI)</b>					
as a percentage of the corresponding period of the previous year	106.3	111.9	113.9	110.8	105.0

Source: compiled by the authors based on the National Statistical Committee of the Kyrgyz Republic.<sup>42</sup>

Table 1 shows steady GDP growth in the Kyrgyz Republic in 2020-2024, increasing almost 2.4 times. After a decline in 2020 (92.9%), the economy began to recover, and since 2021, growth rates have stabilised at 109%. Different sectors of the economy show different dynamics: Agriculture experienced a decline in 2021, falling by 4.5%, but subsequently showed signs of recovery. The industrial sector peaked in 2022, growing by 11.9%, after which the growth slowed down. At the same time, construction was characterised by the most

<sup>42</sup> National Statistical Committee of the Kyrgyz Republic: *Prices and Tariffs*, Bishkek, 2025, <<https://www.stat.gov.kg/en/statistics/ceny-i-tarify/>>, last accessed on 27/7/2025.

volatile performance, with a sharp decline of 15.6% in 2020 and rapid growth of 22.7% in 2023. The service sector is showing steady growth, reflecting a gradual recovery in consumer demand.

Fixed asset investment dropped sharply in 2020 (-24.3%), but then increased significantly, peaking in 2023 (+29.2%). Inflation was highest in 2022 (113.9%), then declined to 105% in 2024. Overall, Kyrgyzstan's economy is showing a recovery from the 2020 crisis, but challenges remain related to inflation and uneven development of industries.

Tax policy also has a significant impact on inflation. Thus, as noted by H. M. L. Utouh and F. A. Kitole,<sup>43</sup> an increase in indirect taxes, such as value-added tax (VAT), contributes to higher prices for goods and services, which signifies inflationary pressures. At the same time, according to C. U. Adamkulova and K. K. Tynaliyev,<sup>44</sup> tax benefits for producers and stimulation of innovation reduce production costs and curb inflationary processes. Table 2 presents data illustrating the relationship between changes in the tax burden and inflation in various economic sectors, which provides a more visual assessment of the impact of tax policy on inflationary trends.

**Table 2. Dynamics of inflation and tax changes in the Kyrgyz Republic**

YEAR	CPI, %	CHANGES IN VAT AND EXCISE TAXES	AVERAGE ANNUAL PRICE GROWTH, %	KEY TAX REFORMS
2020	106.3	No changes	6.3	Anti-crisis tax breaks
2021	111.9	Increase in excise taxes on fuel	11.9	Changes in VAT administration
2022	113.9	Increase in VAT on imports	13.9	Introduction of new tax incentives for businesses
2023	110.8	Reduction of VAT on goods	10.8	Reform of the tax code
2024	102.2	Increase in excise taxes on tobacco products	2.2	Abolition of the patent system for trade

Source: compiled by the authors based on the National Statistical Committee of the Kyrgyz Republic.<sup>45</sup>

<sup>43</sup> Utouh, H. M. L., Kitole, F. A.: The impact of fiscal and monetary policy on economic growth and structural transformation in Tanzania, *Cogent Economics and Finance*, 13(1) 2025, pp. 2499013.

<sup>44</sup> Adamkulova, C. U., Tynaliyev, K. K.: Influence of tax revenues on the economic growth of the country, *Proceedings on Engineering Sciences*, 5(2) 2023, pp. 431-438.

<sup>45</sup> National Statistical Committee of the Kyrgyz Republic: *Prices and Tariffs*, Bishkek, 2025. <<https://www.stat.gov.kg/en/statistics/ceny-i-tarify/>>, last accessed on 27/7/2025.

Table 2 traced the dynamics of inflation due to changes in the tax burden and analysed the impact of tax policy on the price level in the Kyrgyz Republic. In 2022, inflation peaked at 113.9%, which coincided with an increase in VAT on imported goods. In 2023, inflation declined to 110.8%, which was likely due to a reduction in the tax burden on several product groups. In 2024, the inflation rate slowed to 102.2%, which may be due to the simplification of the tax system and the reduction of administrative barriers.

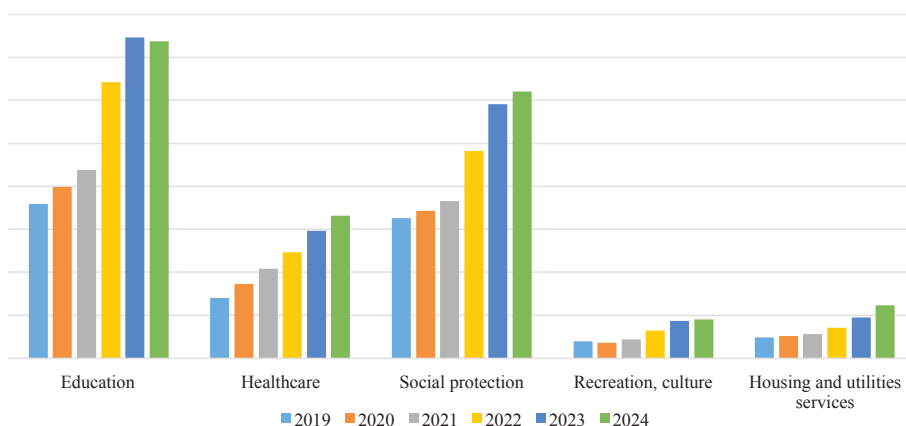
The current tax system in many countries, including the Kyrgyz Republic, faces several challenges that impede its effective functioning. Firstly, the complexity of tax procedures and high tax rates create barriers to the development of small and medium-sized businesses, which in turn fosters tax evasion and the growth of the shadow economy. Secondly, the lack of effective tax control and monitoring mechanisms reduces the transparency of the tax process and promotes corruption in the tax sphere, as noted by K. Tynaliev et al.<sup>46</sup>

On the other hand, there is a tendency to improve tax policy through digitalisation and automation of tax processes. Many countries, including the Kyrgyz Republic, have introduced electronic tax reporting and payment systems, which have significantly facilitated business interaction with tax authorities and reduced administrative costs. Graph 1 shows the dynamics and structure of government expenditures. In the period from 2019 to 2023, there was a steady increase in total government expenditures. In 2020-2021, expenditures grew at a moderate pace of 10-11% annually. In 2022, there was a sharp increase in expenditures by 35.6%, which is likely due to increased spending on the social sector. In 2023, the growth was 20.5%, which indicates that the priority of financing government programmes remains.

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<sup>46</sup> Tynaliev, K. et al.: Modern vectors of development of the country's tax system: International experience, *Scientific Bulletin of Mukachevo State University. Series Economics*, 11(2) 2024, pp. 90-101.

**Graph 1. Dynamics of the state budget expenditures of the Kyrgyz Republic on the social and cultural sphere in 2019-2024 (billion KGS)**



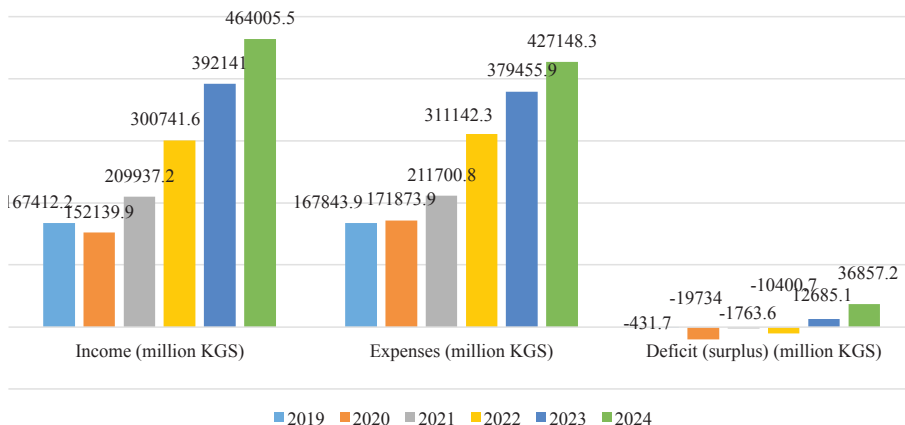
Source: compiled by the authors based on the National Statistical Committee of the Kyrgyz Republic<sup>47</sup>

An analysis of expenditures by category showed that healthcare (+112.1%) and education (+108.1%) showed the highest growth over the five years, driven by modernisation of systems, increased public sector salaries and the launch of new programmes. Expenditures on social protection increased by 81.6% due to the expansion of social programmes, benefits and payments. Housing and communal services (+93.9%) were characterised by a significant increase in funding, reflecting the active development of infrastructure projects and the modernisation of housing and communal services. Recreation and culture saw a 10% decline in spending in 2020, which can be explained by the impact of the COVID-19 pandemic. By 2022, spending in this area increased, and in 2024, spending increased by almost 30% compared to 2023. The largest increase in funding in most areas was in 2022, due to anti-crisis measures, support for the population and the development of social infrastructure.

Graph 2 shows the dynamics and structure of government revenues, expenditures and deficit/surplus for the period. The vertical axis of the graph displays percentage values (%), which can be used for assessment of growth rates and changes in budget allocation.

<sup>47</sup> National Statistical Committee of the Kyrgyz Republic: *Finance*, Bishkek, 2025, <<https://www.stat.gov.kg/en/statistics/finansy/>>, last accessed on 13/8/2025.

**Graph 2. Revenues, expenditures and budget deficit/surplus of the Kyrgyz Republic for 2019-2023**



Source: compiled by the authors based on the National Statistical Committee of the Kyrgyz Republic

Data analysis revealed trends in the dynamics of key budget indicators. In 2020, budget revenues decreased to 152,139.9 million KGS, which was a decrease compared to 2019, when they amounted to 167,412.2 million KGS. However, since 2021, there has been a steady increase in revenues: in 2021, they reached 209,937.2 million KGS, in 2023, 392,141 million KGS, and in 2024, 464,005.5 million KGS. At the same time, budget expenditures increased annually from 167,843.9 million KGS in 2019 to 427,148.3 million KGS in 2024. In the period from 2019 to 2022, the budget remained in deficit as expenditures exceeded revenues. The largest deficit was recorded in 2020 (-19,734 million KGS), which was likely due to the crisis, including the COVID-19 pandemic. In 2021-2022, the deficit decreased but remained significant. In 2023, the situation changed dramatically: the budget became surplus (+12,625.1 million KGS). The analysis of the structure of the tax system and the dynamics of tax revenues in the Kyrgyz Republic for the period 2020-2024 showed significant changes reflecting both economic trends and reforms in the tax sphere (Table 3).

**Table 3. Dynamics of tax revenues to the state budget of the Kyrgyz Republic in 2020-2024**

YEAR	TAX REVENUES, BILLION KGS	INCREASE YEAR-ON-YEAR, (%)
2020	152.1	-
2021	209.9	38.0
2022	300.7	43.3
2023	392.1	30.4
2024	228.2	-41.8

Source: compiled by the authors based on the National Statistical Committee of the Kyrgyz Republic

Table 3 shows the dynamics of tax revenues to the state budget of the Kyrgyz Republic for 2020-2024. The data shows both changes in tax revenues and an increase or decrease compared to the previous year. In the period from 2021 to 2022, there was a significant increase in tax revenues by 38% and 43.3%, respectively. This growth continued until 2023, when tax revenues reached 392.1 billion KSG, up from 152.1 billion KSG in 2020. The main factors behind this growth were the economic recovery from the COVID-19 pandemic, increased business activity, rising consumption, and improved tax administration mechanisms. In the period under review, import taxes, income tax and gold mining taxes played a key role in generating tax revenues.

However, in 2024, there was a sharp decline in tax revenues to 228.2 billion KSG, which corresponded to a 41.8% drop compared to the previous year. Such a decline could indicate significant economic and administrative changes. Among the main reasons for the decline in tax revenues were the slowdown in economic growth, a decline in exports, especially in the extractive sector, and changes in tax policy, including adjustments to tax rates and tax incentives for businesses. In addition, the decline in imports could also be due to external economic factors.

In 2024, the following types of taxes made a significant contribution to tax revenues. VAT on domestic goods amounted to 39.4 billion KSG, up 132.4% compared to 2023. VAT on imports from the Eurasian Economic Union (EAEU) reached 37.9 billion KSG, up 115.9%. Income tax totalled 26.5 billion KSG, up 121.4% year-on-year. Profit tax totalled 20.1 billion KSG, up 114% year-on-year. Tax on the income of gold mining companies reached 16.1 billion KSG, up 152% year-on-year. The single tax totalled 15.08 billion KSG, up 212.6% year-on-year. Excise duty on imports from the EAEU countries totalled 13.3 billion KSG, up 104.6%.

The analysis of the dynamics of state budget expenditures, socio-economic indicators and tax revenues to the state budget concluded that the tax system of the Kyrgyz Republic is central in the formation of the state budget and maintaining economic stability. However, the current tax policy faces several challenges and shortcomings, such as a high tax burden on certain sectors of the economy, difficulties in tax administration and the need to adapt to changes in the external economic environment. These challenges require comprehensive measures to improve the efficiency of the tax system.

The tax system of the Kyrgyz Republic included direct and indirect taxes. The main source of tax revenues was VAT, which covered both domestic transactions and imports, and was one of the key sources of budget revenues. Income tax was levied on individuals and businesses, accounting for a significant portion of budget revenues. Corporate income tax, levied on legal entities, was also substantial in the tax system. Excise taxes were applied to excisable goods such as tobacco, alcohol and fuel. Mining taxes are substantial, given the large share of the mining sector in the Kyrgyz economy and generated substantial revenues for the state.<sup>48</sup>

The tax burden is the ratio of tax revenues to the national GDP. Table 4 shows the tax burden in Kyrgyzstan compared to other countries:

**Table 4. Comparative analysis of tax burdens in different countries**

COUNTRY	TAX BURDEN	MAIN TAXES
Kyrgyzstan	20-22%	VAT, income tax, corporation tax
Kazakhstan	25%	VAT, corporate tax, and social taxes
Russia	33%	Personal income tax (PIT), corporate income tax, and insurance contributions
Germany	39%	Income tax, corporate tax, VAT
USA	27%	Income tax, profit tax, state taxes

Source: compiled by the authors based on World Bank Group

Kyrgyzstan has a relatively low tax burden compared to developed countries, but it is higher than in some countries with a similar economic model. This may indicate the need to improve the efficiency of tax administration without increasing the tax burden.

<sup>48</sup> Adamkulova, C. U., Tynaliev, K. K.: Influence of tax revenues on the economic growth of the country, *Proceedings on Engineering Sciences*, 5(2) 2023, pp. 431-438.

At the same time, E. Marat<sup>49</sup> highlighted the impact of high rates and lack of transparency as the reasons for the growth of the shadow economy, the complexity of tax administration, the significant tax burden on small businesses, as well as the state's dependence on commodity taxes and the lack of transparency in the spending of tax funds. In the current economic environment, I. Gil Rodríguez<sup>50</sup> analysed the role of digital technologies in the modernisation of tax administration, aimed to introduce electronic reporting and control systems to reduce corruption and increase tax collection. Simplification of tax legislation reduced the administrative burden on businesses and expanded the tax base. Measures to combat the shadow economy included legalising business and controlling informal employment, which helped to increase tax revenues.<sup>51</sup> An analysis of the Kyrgyz tax system shows that despite its role in the economy, significant challenges remain. Increasing transparency, digitalisation, combating the shadow economy and business incentives can contribute to a more efficient tax system and sustainable economic growth.

According to K. Abilpeissov,<sup>52</sup> the digitalisation of tax systems is becoming a key factor in improving the efficiency of fiscal policy in the Kyrgyz Republic. This process has required not only changes in legislation and public policy, but also the introduction of new approaches to the organisation of tax control, improvement of tax administration, as well as the active use of modern technologies to increase the efficiency of tax collection.

The digitalisation of the tax system has significantly improved tax collection, tax control and interaction between taxpayers and tax authorities. One of the key aspects of this transformation has been the introduction of electronic tax administration services in the Kyrgyz Republic, including electronic declarations, online tax payment and financial transaction tracking systems. In recent years, this has contributed to a significant increase in the efficiency of tax administration, strengthening the transparency of budgetary processes and reducing tax evasion. Another aspect is the use of Big Data and analytics technologies, which has facilitated the collection and analysis of large amounts of

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<sup>49</sup> Marat, E.: Global money laundering and its domestic political consequences in Kyrgyzstan, *Central Asian Survey*, 34(1) 2015, pp. 46-56.

<sup>50</sup> Gil Rodríguez, I.: Integral digital assistance administrations in the State Tax Administration Agency, *Cronica Tributaria*, 1(190) 2024, pp. 37-77.

<sup>51</sup> Alqsass, M. et al.: The impact of dividends per share and retained earnings per share on share price: a study based on Jordanian companies, *Quality - Access to Success*, 24(197) 2023, pp. 67-74.

<sup>52</sup> Abilpeissov, K.: Kyrgyz Republic Tax Legislation Influence on the Local Automotive Industry Efficiency, *Theoretical and Practical Research in the Economic Fields*, 15(3) 2024, pp. 709-717.

information on the financial activities of taxpayers. This has helped identify arrears, fraud and other violations. One of the most promising areas is the introduction of blockchain technologies, which has increased the transparency of the tax sphere by creating secure and transparent accounting and data transfer systems.<sup>53</sup>

Kyrgyzstan has developed mobile applications for taxpayers, which provide individuals and businesses with the ability to easily check tax liabilities, file tax returns, and receive advice and notifications from tax authorities. Automation of tax processes using automatic calculation, accounting, and data analysis systems has reduced errors, increased the efficiency of administration and mitigated corruption risks.<sup>54</sup>

Globalisation has increased international economic ties and transnational flows of capital, goods and services, which have created new challenges for tax regulation. International tax competition has forced Kyrgyzstan to adapt its tax legislation to attract investment by offering more favourable tax conditions. One of the key issues was the fight against transfer pricing used by global corporations to minimise tax liabilities, which required the development of effective mechanisms to prevent tax manipulation in international trade.<sup>55</sup>

The taxation of digital platforms such as Google, Amazon and Facebook, which have had a significant impact on Kyrgyzstan's markets although not physically present in the country, has become an urgent task. To this end, approaches have been developed to introduce taxes on digital services or on profits generated from activities in the country.<sup>56</sup>

Kyrgyzstan has participated in international agreements on the avoidance of double taxation, which has contributed to the reduction of tax barriers and the development of international business and investment. As part of the fight against international tax evasion, the republic has joined information exchange systems between tax authorities of different countries, which has increased control over cross-border financial flows.<sup>57</sup>

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<sup>53</sup> Lyutova, O. I., Fialkovskaya, I. D.: Blockchain technology in tax law theory and tax administration, *RUDN Journal of Law*, 25(3) 2021, pp. 693-710.

<sup>54</sup> Baimagambetov, A., Omirbayev, S.: Progressive tax development in the taxation system: a comparative analysis of the EU and Central Asian countries, *Retos*, 15(29) 2025, pp. 131-148.

<sup>55</sup> United Nations Development Programme (UNDP): *Tax incentives to facilitate achieving SDGs in Kyrgyzstan*, 3.08.2022.

<sup>56</sup> Tanzi, V., Zee, H. H.: Tax policy for emerging markets: developing countries, *National tax journal*, 53(2) 2000, 299-322.

<sup>57</sup> United Nations Development Programme (UNDP): *Tax incentives to facilitate achieving SDGs in Kyrgyzstan*, 3.08.2022.

The e-Government project included the creation of digital platforms that provide citizens and businesses with access to online services, including tax services. The project included the introduction of electronic tax returns, online tax payments and improved tax control. In addition, a project was implemented to introduce an automated tax accounting system, which reduced the influence of the human factor, increased control and reduced corruption risks in the tax area.

Kyrgyzstan actively participated in the international BEPS initiative aimed to combat tax evasion and transfer pricing and developed a tax policy that incorporates the peculiarities of the digital economy.<sup>58</sup> In the context of the growth of digital services, a legislative framework has been developed to tax the income from the activities of international digital companies that provide services in the country but do not have physical offices in the country.<sup>59</sup>

This data shows the progress made by the Kyrgyz Republic in digitalising its tax system and adapting to the challenges of globalisation. The introduction of new technologies, such as electronic declarations, mobile applications for taxpayers and process automation, has significantly improved the efficiency of tax administration. At the same time, globalisation has required Kyrgyzstan to actively participate in international tax initiatives, including BEPS, and to develop new mechanisms for taxing digital companies. Table 5 shows the changing dynamics of information technology adoption and the impact of the digital transformation of the Kyrgyz tax system in recent years.

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<sup>58</sup> Organisation for Economic Co-operation and Development (OECD): *Revenue Statistics in Asia and the Pacific 2024: Tax Revenue Buoyancy in Asia*, Paris: OECD Publishing, 2024.

<sup>59</sup> Tanzi, V., Zee, H. H.: Tax policy for emerging markets: developing countries, *National tax journal*, 53(2) 2000, 299-322.

**Table 5. The dynamics of digitalisation and the impact of globalisation on tax regulation in the Kyrgyz Republic**

VALUES	2019	2020	2021	2022	2023
Total number of e-declarations filed (million declarations)	1.2	1.5	1.9	2.4	2.8
Percentage of tax payments made through electronic channels, %	25	45	55	70	84
Number of users of mobile applications for taxpayers, people	50.0	120.0	200.0	300.0	450.0
Number of tax audits conducted using automated systems (audits)	-	507	803	1007	1203
International cooperation and participation in BEPS, agreements	5	8	10	12	14
Exchange of information on transfers and international financial flows	-	55	107	150	204
Taxes on digital services (platforms such as Google, Facebook), million KGS	-	10	15	21	32
Percentage of international digital companies registered in the tax base of the Kyrgyz Republic, %	-	5	10	15	21
Number of transfer pricing audits	-	25	39	46	52
Percentage of transfer pricing violations detected, %	-	10	12	15	18
Number of foreign investors registered in the tax base	-	154	181	205	220
Percentage of tax revenues from international companies, %	-	5	7	10	12

Source: compiled by the authors based on Balabushko, O. et al.<sup>60</sup>

Data analysis shows the active implementation of digital technologies and international standards in the country's tax administration. Between 2019 and 2023, the number of e-declarations filed increased from 1.2 million to 2.8 million, and the share of electronic payments increased from 25% to 84%. The number of users of tax mobile applications increased from 50,000 to 450,000. The number of automated tax audits increased from 507 in 2020 to 1,203 in 2023, which increased the efficiency of detecting violations. At the same time, the share of audits related to transfer pricing doubled, and the number of violations detected increased from 10% to 18%. The number of double taxation

<sup>60</sup> Balabushko, O. et al.: *Review of the Tax System in the Kyrgyz Republic*, Washington: World Bank, March 2024.

treaties increased from 5 in 2019 to 14 in 2023, and the number of tax information exchanges increased from 55 to 204. Revenues from the taxation of digital services increased from 10 million KGS in 2020 to 32 million in 2023, with the share of international digital companies in the tax base increasing from 5% to 21%.<sup>61</sup> In addition, the number of registered foreign companies increased from 154 in 2020 to 220 in 2023, and their contribution to tax revenues increased from 5% to 12%.<sup>62</sup>

Thus, the processes of digitalisation and globalisation have had a positive impact on increasing the transparency of the tax system, improving its administration and increasing tax revenues in the Kyrgyz Republic. Despite the successes achieved, the country still faces significant problems with tax evasion. This is primarily due to the low level of tax literacy among the population, insufficient effectiveness of tax control measures, and existing difficulties in tax administration. The prevalence of the shadow economy, which reduces the tax base and complicates tax collection, remains a significant challenge. In addition, corrupt practices and imperfections in the current legislation exacerbate these problems, as noted in reports and studies by international organisations, including the OECD.<sup>63</sup> To improve the efficiency of the tax system, a comprehensive approach is needed, including legislative reforms, the development of educational programmes and the strengthening of control mechanisms.

Graph 3 shows the changes in the level of shadow transactions, reflecting the impact of various economic factors, including changes in tax policy and the level of control.

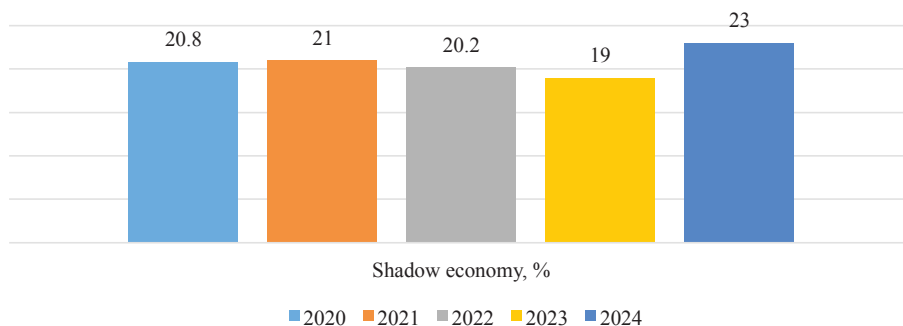
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<sup>61</sup> National Statistical Committee of the Kyrgyz Republic: *Prices and Tariffs*, Bishkek, 2025. <<https://www.stat.gov.kg/en/statistics/ceny-i-tarif/>>, last accessed on 27/7/2025.

<sup>62</sup> United Nations Development Programme: *UNDP supports E-commerce growth in Kyrgyzstan*, 19.11.2024.

<sup>63</sup> Organisation for Economic Co-operation and Development (OECD): *Revenue Statistics in Asia and the Pacific 2024: Tax Revenue Buoyancy in Asia*, Paris: OECD Publishing, 2024.

**Graph 3. Share of the shadow economy in Kyrgyzstan’s GDP (by years)**



Source: compiled by the authors based on the National Statistical Committee of the Kyrgyz Republic.<sup>64</sup>

Analysis of the data shows that from 2020 to 2023, there was a decline in the share of the shadow economy, which may indicate more active government measures to combat shadow operations. In 2021, there was a slight increase (+0.2 pp), but in 2022 and 2023, there was a decrease of 0.8 pp and 1.2 pp, respectively. This reflects the positive dynamics in tax administration and control.

However, in 2024, there was a sharp increase in the share of the shadow economy, which may be due to the economic crisis, increased tax burden, weakened control and growth in shadow employment. The share of the shadow economy in Kyrgyzstan can reach 20-40% of GDP, which reduces tax revenues and threatens the stability of the financial system. In 2022, the unobserved economy accounted for 20.2% of GDP, and as of 1 July 2024, tax arrears amounted to 58.9 billion KGS.

The growth of the shadow sector in 2024 required additional analysis of the factors that contributed to this phenomenon to further improve tax control and increase economic transparency. Table 6 shows the main measures aimed to combat tax evasion and their expected results.

<sup>64</sup> National Statistical Committee of the Kyrgyz Republic: *Finance*, Bishkek, 2025, <<https://www.stat.gov.kg/en/statistics/finansy/>>, last accessed on 13/8/2025.

**Table 6. Key measures to combat tax evasion and their potential results**

MEASURE	DESCRIPTION	EXPECTED RESULTS
Implementation of automated systems	Development of online systems for filing tax returns and paying taxes	Increase in transparency, reduction of errors
Increase in tax awareness	Companies for citizens and businesses on proper taxation	Reduction of errors and tax evasion
Enhancement of international cooperation	Cooperation with international tax authorities and participation in BEPS	Combat of transnational tax evasion schemes
Educational programmes for tax authorities	Professional development of tax inspectors	Reduction of corruption and errors in inspections
Tougher sanctions	Introduction of stricter penalties for tax evasion	Increase in the deterrent effect

Source: compiled by the authors based on A.J. Auerbach<sup>65</sup>

The introduction of automated systems, such as online tax filing and payment platforms, has increased transparency and reduced errors in tax administration. Raising tax awareness among businesses and households has helped reduce errors and evasion, creating a more informed and responsible society. Strengthening international cooperation, within the framework of the BEPS initiative, has played a key role in countering transnational tax evasion schemes, which is especially relevant in the context of globalisation. Training programmes for tax authorities have improved the skills of inspectors, reduced corruption and errors during inspections. In addition, stricter sanctions for tax evasion have had an additional deterrent effect.

The results of the interviews revealed several key insights. First, many experts highlighted the persistent issues related to the complexity of tax procedures and the high level of bureaucracy, which continues to hinder the efficiency of tax administration. Several participants noted that despite the implementation of digital tools, such as e-tax filing and online payments, the system remains opaque, particularly for small and medium-sized enterprises, which are still facing significant challenges in navigating tax regulations. Another important point raised by the interviewees was the lack of proper training and awareness programs for taxpayers, which has led to a high level of non-compliance,

<sup>65</sup> Auerbach, A. J.: Measuring the effects of corporate tax cuts, *Journal of Economic Perspectives*, 32(4) 2018, pp. 97-120.

especially among smaller businesses. Additionally, experts stressed the importance of improving the capacity of tax authorities to handle the increasing volume of digital transactions and to tackle the growing issue of the shadow economy. There was a consensus on the need for further integration of digital solutions into the tax system to enhance transparency, reduce corruption, and improve overall efficiency. However, some experts expressed concerns about the readiness of the tax administration to fully embrace these technologies, citing insufficient infrastructure and a lack of skilled personnel. In terms of recommendations, the majority of interviewees suggested that the government should focus on simplifying tax procedures and reducing the administrative burden on businesses. They also recommended enhancing public awareness of tax obligations and encouraging voluntary compliance through incentive programs. A few experts also advocated for stronger measures to tackle the shadow economy, such as stricter enforcement of tax laws and more robust data-sharing mechanisms with financial institutions.

Based on the theoretical foundations of tax policy, analysis of the current state of the tax system, as well as the identified problems and shortcomings of the current tax policy, the following recommendations for its improvement in the Kyrgyz Republic are proposed:

1. Optimisation of tax administration includes the automation of tax control using Big Data processing technologies, artificial intelligence and automated monitoring systems to analyse financial transactions. The tax legislation is simplified by eliminating duplicate regulations and reducing bureaucratic procedures for taxpayer registration and reporting. Tax audits are based on a risk-based approach, which means that audits are conducted only when there are signs of irregularities. A substantial area has been the development of international cooperation within the framework of the Base Erosion and Profit Shifting (BEPS) initiative, as well as the automatic exchange of tax information with other countries. Control over the shadow economy has been strengthened through the mandatory use of online cash registers and enhanced monitoring of cash payments.
2. To improve the efficiency of the tax system, modern digital solutions and simplification of procedures have been introduced, and the tax burden on business has been decreased by reducing the tax burden on small and medium-sized enterprises by lowering tax rates and expanding the simplified taxation system. Tax holidays have been introduced to encourage the development of start-ups and innovative enterprises. One of the key areas has been the development of business legalisation mechanisms, including an amnesty for previously unregistered entrepreneurs who voluntarily left the shadow sector. VAT and corporate income tax have been optimised by introducing differentiated rates based on industry specifics. Tax consulting

has also been developed, including the creation of free consulting centres for businesses and individual entrepreneurs.

3. The introduction of digital technologies in the tax area includes the full digitalisation of tax reporting with the expansion of online platforms and mobile applications for taxpayers. Blockchain technologies have been used to ensure the transparency of tax transactions and minimise fraud risks. Artificial intelligence has been used in tax audits to analyse large amounts of data and identify violations. The introduction of electronic invoices (e-Invoice), which can be used for real-time control over the movement of goods and services, has become mandatory. To simplify tax administration, an automated tax calculation system known as “one-click tax” has been developed, available to both individuals and legal entities.

The implementation of the proposed measures will improve the efficiency of the tax system, reduce administrative barriers for business, reduce the shadow economy and strengthen the fiscal sustainability of the Kyrgyz Republic.

The study identified the key problems of the tax system of the Kyrgyz Republic and proposed recommendations for its improvement. The results provided valuable data for further analysis and practical application in the process of tax reforms. This section compares the findings with those of other scholars who have studied the tax systems of Central Asian countries and discusses the degree of their consistency.

One of the main conclusions was the need to improve the efficiency of tax administration and simplify tax procedures. Similar results were presented in the work of M. Nizaeva,<sup>66</sup> emphasising the importance of simplifying procedures to increase tax revenues in Kyrgyzstan. The study noted that the complexity and non-transparency of tax procedures created substantial administrative barriers for small and medium-sized businesses, which decreased tax revenues and the growth of the shadow economy. S.S. Yesimov<sup>67</sup> supported the idea of digitalisation and the introduction of automated taxation systems as an effective solution to these problems.

In terms of tax burden reduction on small and medium-sized businesses, the findings echoed the conclusions of L. Verbivska et al.,<sup>68</sup> emphasising the need to provide tax incentives for small and medium-sized businesses. The study

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<sup>66</sup> Nizaeva, M.: Regulatory and Institutional Factors Driving Small Firms' Growth in Central Asia, *Eurasian Journal of Business and Economics*, 17(34) 2024, pp. 167-184.

<sup>67</sup> Yesimov, S. S.: Administrative coercion in the field of taxes and fees, *Social and Legal Studies*, 5(1) 2022, pp. 35-40.

<sup>68</sup> Verbivska, L. et al.: Taxation strategy for small businesses in the context of digitalization, *Financial and Credit Activity: Problems of Theory and Practice*, 4(51) 2023, pp. 66-79.

argued that reducing the tax burden improves the business climate and creates new jobs. In the context of the Kyrgyz Republic, reduction of the tax burden on this sector was recognised as a priority area for reforms due to its importance for the national economy.

However, in terms of attracting investment, the results of the study showed some discrepancies with the conclusions of K. Tynaliev et al.,<sup>69</sup> arguing that the tax policy in Kyrgyzstan has already stimulated the inflow of foreign investment. The analysis revealed that Kyrgyzstan's tax system did not have the necessary flexibility to attract large investors and needed additional tax preferences for foreign companies to stimulate long-term investment.

The high level of tax evasion found in the survey correlates with the findings of E. Marat,<sup>70</sup> who argued that high tax rates and a lack of transparency in tax procedures contributed to the expansion of the shadow economy. In addition, the integration of blockchain technologies and other digital tools was proposed to increase the transparency of the tax process and reduce opportunities for evasion. This position is confirmed in studies by B. Hai et al.,<sup>71</sup> emphasising the role of digitalisation of tax administration in improving control and increasing tax revenues.

In addition, the results of the study coincided with the findings of A. Generalov and O. Generalova-Kutuzova<sup>72</sup> emphasise the need to strengthen social justice through the redistribution of tax revenues. The study recommended addressing tax benefits for socially vulnerable groups to reduce social inequality and increase public confidence in the tax system.

Comparison of the results with the works of other authors revealed a general agreement on the key areas of tax reforms in Kyrgyzstan, such as simplification of tax procedures, reduction of the tax burden on small and medium-sized businesses and improvement of the efficiency of tax administration. At the same time, differences were found in the role of digital technologies in the

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<sup>69</sup> Tynaliev, K. et al.: Modern vectors of development of the country's tax system: International experience, *Scientific Bulletin of Mukachevo State University. Series Economics*, 11(2) 2024, pp. 90-101.

<sup>70</sup> Marat, E.: Global money laundering and its domestic political consequences in Kyrgyzstan, *Central Asian Survey*, 34(1) 2015, pp. 46-56.

<sup>71</sup> Hai, B. et al.: Digitalization of tax administration and its impact on corporate ESG performance, *Finance Research Letters*, 68 2024, pp. 105791.

<sup>72</sup> Generalov, A., Generalova-Kutuzova, O.: Economics, legal, political and social environment of entrepreneurs in Kyrgyzstan, in: Ince-Yenilmez, M., Darici, B. (eds.): *Engines of Economic Prosperity: Creating Innovation and Economic Opportunities through Entrepreneurship*, Cham: Palgrave Macmillan, 2021, pp. 337-357.

fight against tax evasion, where this study highlighted the need for more active implementation of innovative solutions. In the context of the modern economy and globalisation, the digitalisation of tax processes was seen as a key factor in improving the efficiency of tax policy.

In relation with the above, the need for a comprehensive tax reform in the Kyrgyz Republic, incorporating modern challenges and trends, including digitalisation and globalisation, was confirmed. The opinions of researchers such as K. Tynaliev et al.<sup>73</sup> and M. Nizaeva,<sup>74</sup> that simplification of tax procedures and introduction of new technologies are critical for improving the efficiency of the tax system and accelerating economic development, were supported by the analysis.

Thus, improvement of tax policy is a key strategic objective, the successful solution of which will ensure the sustainability of economic growth, the development of the business sector and the improvement of the quality of life of the population. This study identified current problems in the field of tax regulation, developed effective mechanisms for overcoming them, and generated scientifically sound recommendations. The results obtained can serve as a basis for further development and implementation of the state tax policy, which will contribute to the comprehensive development of the economy.

## **5. CONCLUSION**

The review of scientific literature and the analysis of the current state of tax policy in the Kyrgyz Republic have revealed a crucial need for flexible, adaptive, and forward-looking tax mechanisms capable of fostering sustainable economic growth while ensuring the effectiveness of the fiscal system. This study underscores the importance of aligning tax policy with digital advancements and globalisation trends to create a tax environment that not only generates stable state revenue but also stimulates investment, innovation, and economic diversification. Our study found that Kyrgyzstan's current tax policy lacks a cohesive strategic framework, resulting in an imbalanced tax burden and increased fiscal risks. This imbalance limits the competitiveness of the national economy and creates an uncertain environment for both traditional businesses and emerging sectors like the digital economy. Unlike earlier studies

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<sup>73</sup> Tynaliev, K. et al.: Modern vectors of development of the country's tax system: International experience, *Scientific Bulletin of Mukachevo State University. Series Economics*, 11(2) 2024, pp. 90-101.

<sup>74</sup> Nizaeva, M.: Regulatory and Institutional Factors Driving Small Firms' Growth in Central Asia, *Eurasian Journal of Business and Economics*, 17(34) 2024, pp. 167-184.

which focused on general reforms, this research provides a nuanced analysis of Kyrgyzstan's tax system, emphasizing the need for modern digital tools and comprehensive tax administration reforms. These findings are particularly relevant for developing countries that face similar challenges in reforming their tax systems in the context of digital transformation.

The study also emphasizes the necessity of optimising the tax burden on businesses and individuals, particularly as a means to create a more conducive business climate. This has been a recurrent theme in the literature, but this paper specifically addresses the unique challenges faced by Kyrgyzstan, where high tax rates and administrative inefficiencies contribute to the growth of the shadow economy. Through expert interviews, this study identified significant concerns about the current tax administration system and the role of digitalisation in overcoming these challenges. The findings point to the need for digital tools to improve transparency and reduce corruption, aligning with global best practices. This paper also discusses the importance of stronger international cooperation in combating tax evasion, particularly in relation to global initiatives. However, it extends this by providing a specific set of recommendations for Kyrgyzstan, focusing on the implementation of automated tax reporting systems and the use of digital technologies like blockchain to enhance transparency in the tax process.

Despite these contributions, the study has certain limitations. The expert interviews, while informative, are limited by the small sample size and the focus on key stakeholders from government institutions and large businesses, which may not fully represent the broader spectrum of tax compliance issues. Additionally, while the paper discusses the theoretical foundations of tax policy in the digital economy, further empirical data on the direct impact of digital tools on tax revenues and business compliance would be beneficial. Future research should aim to expand the scope of expert interviews, include a wider range of stakeholders, and conduct longitudinal studies to measure the long-term effects of digitalisation on tax collection and business activity in Kyrgyzstan.

The study's findings and recommendations, though specifically focused on the Kyrgyz context, offer valuable insights that could be applied to other post-transitional economies facing similar challenges. Future research should explore the broader applicability of these findings to other countries in Central Asia and beyond, considering the unique political, economic, and social factors that may influence the implementation of tax reforms.

In conclusion, the successful reform of the Kyrgyz tax system requires a multifaceted approach that integrates legislative changes, digital innovations, and an improved tax culture. This study contributes to the growing body of literature on tax policy reform in emerging economies by offering practical, con-

text-specific recommendations for Kyrgyzstan while also providing insights that could benefit other post-transitional countries striving to modernize their tax systems.

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