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Article

Key Determinants of Public Financial Management in a Market Environment

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Abstract: The article examines the influence of internal and external factors on the system of public finance management in a market economy. It highlights the necessity of a comprehensive approach to financial governance that takes into account institutional, economic, and external determinants. Particular attention is given to the role of fiscal and tax policies, debt instruments, and financial control mechanisms as key elements in ensuring the stability of public finances. The study identifies major groups of factors that determine the efficiency of the public finance management system and demonstrates their impact on the sustainability of the revenue and expenditure framework of the state budget. The article emphasizes the importance of adaptability of financial management to changing conditions of the market environment and global economy. The results obtained make it possible to formulate practical recommendations aimed at improving the system of public finance management, strengthening economic resilience, reducing risks, and enhancing the effectiveness of fiscal policy implementation.

Keywords: Public Finance, Market Economy, Influencing Factors, Financial Stability, Fiscal Policy, Tax Regulation, Financial Management System

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1. Introduction

The modern market economy is characterized by a high degree of dynamism and the complexity of interactions among numerous economic actors. Under these conditions, public finance functions not only as an instrument of national income redistribution but also as a crucial factor in ensuring sustainable economic development. Effective management of state financial flows makes it possible to maintain macroeconomic balance, stimulate investment activity, fulfill social commitments, and lay the foundation for long-term economic stability[1].

The system of public finance management is influenced by a wide range of factors, both internal and external. Internal factors include the specifics of fiscal and tax policy, the level of institutional development, and the organization of financial control. External factors are associated with global economic processes, integration into the international financial system, changes in international market conditions, and fluctuations in resource prices. Taken together, these factors determine both the opportunities and limitations for the effective functioning of the public financial mechanism[2].

The importance of studying the impact of such factors on the system of public finance management lies in the fact that the adaptability of this system largely determines the

resilience of the economy to crisis phenomena. In a market environment, financial management acquires a strategic character: it is aimed not only at balancing revenues and expenditures but also at creating incentives for private sector development, supporting competition, and establishing conditions for innovative growth[3].

Literature Review

As noted by foreign scholars Hanane Jafi and Said Youssef, "the factors influencing public finance management can be divided into external and internal ones, with external factors being associated with the impact of the global economy and the international financial system. Changes in global market conditions, particularly in commodity markets, directly affect the revenue side of the budget, since export revenues in many countries constitute a significant share of government income" [4].

Mirzakanova Z.Z. argues that "inflationary processes, exchange rate fluctuations, international crises, and sanctions-related restrictions also generate risks for public financial management. Moreover, participation in international financial organizations imposes certain obligations on the country, requiring flexibility in budgetary and debt management" .

Budarniy V.A. emphasizes that "public finances serve as a key instrument for the formation and distribution of financial resources at various levels from macroeconomic to microeconomic. Their primary purpose lies in enabling the state to fulfill its functions and in meeting the needs of both the population and economic entities in the provision of public services. In the modern economy, public finances operate across all types of economic systems, which demonstrates their universal nature" [5].

According to the author, public finances provide the foundation for the activities of state authorities and governance bodies by accumulating resources through the federal budget, extra-budgetary state funds, as well as reserve and insurance funds. Such a mechanism ensures the stability of the financial system, creates sources for financing social programs, and supports macroeconomic stability.

In a market economy, public finances must demonstrate a high degree of adaptability. Srojiddinova Z.Kh. notes that "the instability of the macroeconomic environment requires financial authorities not only to regulate current revenues and expenditures but also to forecast the long-term consequences of particular decisions". For instance, excessive reliance on indirect taxes in budget revenues may provoke social tensions, whereas underestimation of debt burdens can lead to a payment crisis and undermine confidence in the state's financial system[6].

A comparison of different approaches presented in domestic and international literature highlights the ambiguity of interpretations. Some researchers focus on the priority role of internal factors, arguing that "it is precisely the institutional environment and the level of financial system development that determine the effectiveness of managing public resources". Others emphasize that "in an open economy, external factors - such as fluctuations in global prices, global crises, and transnational obligations - can exert a more significant influence on the sustainability of public finances".

Particularly important is the issue of balancing the short-term and long-term effects of these factors. For instance, "the use of credit borrowings may temporarily strengthen the state's financial position, but in the long run, excessive debt accumulation creates a threat to macroeconomic stability". Similarly, expanding the tax base increases budget revenues, yet excessive fiscal pressure may reduce business activity and the country's investment attractiveness [7].

The literature also debates the optimal level of government intervention in the financial system. Some scholars argue that "in a market economy, the state should be limited to regulating basic macroeconomic parameters and creating conditions for the effective functioning of the private sector". Others insist on "the active role of the state as

the main guarantor of financial stability and a driver of economic growth, especially under crisis conditions". This debate reflects the necessity of finding a balance between market self-regulation mechanisms and proactive state financial policy .

The analysis shows that the effectiveness of public financial management largely depends on the coordination of internal and external factors. With strong institutional foundations and effective budgetary policy, a country can adapt more easily to unfavorable changes in global markets. Conversely, weak domestic financial control and dependence on external economic conditions can lead to budget imbalances and reduced economic resilience[8].

Thus, the modern system of public financial management must account for the comprehensive influence of various factors and be built on the principles of flexibility, transparency, and efficiency. In a market economy, the key challenge is to balance fiscal sustainability, the stimulation of economic growth, and the fulfillment of social obligations by the state. This requires not only analysis of the current situation but also the development of mechanisms for long-term forecasting and adaptation capable of ensuring financial stability in an environment of global uncertainty [9].

2. Materials and Methods

The methodology for this research involves a combination of both general scientific and specialized methods to thoroughly examine the influence of various internal and external factors on public financial management in a market economy. The approach is rooted in logical and comparative analysis to identify how these factors impact the system, particularly the fiscal sustainability of government budgets. A systemic approach is employed to view public finance as an interconnected mechanism, ensuring a holistic understanding of its functioning. Factor analysis is used to classify and evaluate the key determinants affecting public finance, while dynamic and structural analysis techniques are applied to explore the patterns of budget revenues and expenditures over time. This method enables the study to assess the influence of external forces such as global economic trends and the role of international commitments, alongside internal factors like fiscal policies and the effectiveness of financial control systems[10].

The research relies on a comprehensive information base, drawing from official statistical data, legal and regulatory documents, reports from international organizations, and relevant academic publications. This multi-source approach guarantees the reliability and objectivity of the findings. Through these methods, the study aims to generate practical recommendations for improving public financial management systems, focusing on strengthening economic resilience and ensuring the effective implementation of fiscal policies in the face of changing market conditions. This methodology allows for a clear and in-depth analysis of the factors that shape public financial management, facilitating a deeper understanding of their interrelations and the broader economic context.

3. Results

The system of public financial management in a market economy is shaped by numerous factors, which can be broadly divided into internal and external. Foreign scholars note that "each of them exerts a different degree and direction of influence on budget stability, the effectiveness of fiscal policy, and the overall economic resilience of the country"[11].

Internal factors are largely associated with the institutional environment and the organization of financial management. The state of the budgetary system plays a crucial role: its transparency, the balance between revenues and expenditures, and the quality of planning and execution. Tax policy also has a significant impact, as it determines the sustainability of the revenue base as well as the level of trust in government by businesses and the population. An equally important role is played by the system of public debt:

excessive debt burden limits the government's ability to finance priority areas, whereas effective debt management can serve as a tool for economic development.

Internal factors also include the institutional capacity of public authorities, the quality of financial control, and the transparency of government expenditures. If the control system is underdeveloped, risks of inefficient use of funds, corruption, and declining economic stability increase. Consequently, the effectiveness of public financial management is largely determined by the quality of domestic governance, the ability to build a long-term strategy, and the capacity to adapt to changing conditions, see Table 1 [12].

Table 1. Determinants of Efficiency in Public Financial Management under Market Conditions.

Group of Factors	Content (Key Determinants)	Characteristics of Influence
Institutional	Quality of public governance, effectiveness of financial control, level of transparency and accountability	Define public and investor trust, reduce risks of corruption and inefficient use of resources
Economic	Tax base and its sustainability, budget balance, level of public debt, macroeconomic stability	Affect fiscal sustainability and the government's ability to fulfill social obligations
Social	Living standards of the population, fairness of resource distribution, citizen participation in budget initiatives	Ensure social stability and legitimacy of financial policy
External	Global market conditions, exchange rate fluctuations, global crises, international commitments	Determine the degree of dependence of public finance on external conditions
Technological	Introduction of digital technologies, development of fintech, green and inclusive finance	Increase efficiency, transparency, and sustainability of public financial management

Compiled by the author.

Table 1 presents the key determinants of public financial management in a market environment. Institutional factors include the quality of governance, the effectiveness of financial control, and transparency of procedures, which shape both public and investor trust. Economic factors comprise the sustainability of the tax base, the balance between revenues and expenditures, and the level of public debt, all of which determine fiscal resilience. Social factors are reflected in living standards and the degree of citizen participation in budget initiatives, whereas external factors are shaped by global market dynamics, exchange rate fluctuations, and international crises. Technological factors are associated with the adoption of digital innovations, the development of fintech, and the use of green and inclusive finance instruments[13].

Overall, the analysis demonstrates that effective public financial management requires an integrated consideration of all these factors. Institutional and economic conditions provide the internal foundation for stability, social factors ensure the legitimacy of fiscal policy, and external factors define the framework for system adaptability. Technological innovation serves as a cross-cutting element that strengthens transparency and efficiency. Thus, balanced development across all groups of determinants is a critical precondition for financial stability and sustainable economic growth.

4. Discussion

The results of the analysis demonstrate that the system of public financial management in a market economy is influenced by a wide range of diverse factors. A key challenge lies in achieving a balance between internal determinants -such as budgetary and tax policy, the level of financial control, and institutional stability - and external challenges linked to global market dynamics and integration into the world economy[14].

Thus, the debate centers on the need to develop adaptive models of public financial management that take into account not only current indicators but also potential future risks. Clearly, there is no universal solution: "the effectiveness of financial management depends on the combination of the specifics of the national economy, the level of institutional development, and global trends". In this context, the findings confirm the thesis that public financial policy must be flexible, multi-level, and grounded in the principles of strategic forecasting.

The research conducted by domestic scholars further supports the idea that "the system of public financial management in a market economy is influenced by both internal and external factors, the impact of which may vary depending on the specific stage of economic development". One of the most debated issues concerns what primarily determines the resilience of financial governance: internal institutional mechanisms or global economic trends[15].

On the one hand, a well-developed tax and budget system, transparent procedures for allocating and using public resources, and a high level of financial control help mitigate the effects of adverse external fluctuations. In countries with strong institutional foundations, it is possible to maintain a relative balance of revenues and expenditures even under unfavorable global conditions. On the other hand, in economies heavily dependent on commodity exports or external borrowing, global factors become decisive, making the domestic financial system more vulnerable.

When discussing the findings, it is important to emphasize that the impact of these factors on public financial management is interrelated. For example, an increase in domestic debt may be caused not only by internal management decisions but also by global crises, declining export revenues, or rising interest rates in international capital markets. Similarly, the efficiency of the tax system is determined not only by the quality of administration but also by the level of economic activity, which is influenced by external conditions.

Therefore, the key conclusion of the discussion is that the system of public financial management in a market economy must be built on the principles of adaptability and flexibility. It should take into account the interconnection of factors and provide mechanisms for rapid response to changes in both internal and external environments. In this regard, the development of strategic forecasting models becomes particularly important, as they enable the assessment of various scenarios and the minimization of potential risks.

5. Conclusion

The analysis has shown that the system of public finance management is a complex and multi-level mechanism influenced by a wide range of factors. Internal factors such as the quality of fiscal and tax policy, the effectiveness of financial control, and institutional resilience largely determine the balance and effectiveness of financial decision-making. External factors, including global economic crises, fluctuations in world prices, currency risks, and integration processes, can significantly strengthen or, conversely, limit the efficiency of domestic management.

It has been revealed that an optimal balance between the impact of internal and external factors is achieved under conditions of a flexible and adaptive financial policy, based on the principles of strategic forecasting and sustainable resource allocation. A

violation of this balance leads to the growth of budget deficits, an increased debt burden, and a decline in confidence in the state's financial system.

Improving the management of public finances in a market economy should be aimed at enhancing the transparency and efficiency of fiscal and tax policy, strengthening the system of financial control, and developing adaptive tools to respond to external challenges. An important prerequisite is the rational use of debt resources and the introduction of modern financial technologies, which will ensure the sustainability of public finances and increase confidence in them from both society and investors.

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