

**FINANCIAL RISKS IN PUBLIC FINANCE MANAGEMENT: IDENTIFICATION, ANALYSIS, AND MANAGEMENT STRATEGIES***Kustanbaeva Jansaya Marat qyzy**E-mail: jkustanbaeva@gmail.com*

**Abstract:** This article examines the identification, analysis, and management of financial risks in public finance management, emphasizing the challenges that governments face in maintaining fiscal stability. Effective public finance management is crucial for a government's ability to meet its social and economic objectives. However, it is often hindered by various types of financial risks, including revenue volatility, expenditure overruns, and debt-related risks. This paper provides a comprehensive framework for identifying these risks, analyzing their potential impacts, and implementing strategies to mitigate them. It reviews approaches such as fiscal buffers, diversification of revenue sources, debt restructuring, and regulatory safeguards that enhance resilience. By exploring case studies and best practices from different countries, the article aims to offer policymakers actionable insights to improve financial risk management and foster long-term fiscal sustainability.

**Keywords:** Public finance management, financial risk, revenue volatility, expenditure risk, debt management, fiscal policy, risk mitigation strategies, fiscal stability.

**Literary review.** Risk management involves identifying, analysing, and accepting uncertainty in investment decisions or addressing specific problems. Simply put, it is the process of monitoring and dealing with financial risks associated with investments.[1] Financial risk management strategies are action plans or policies designed to deal with various forms of financial risk. Strategies are important for any firm or individual to manage the specific financial risks associated with operating in the economy and the financial system.[2]

Financial risk management is the function of managing the processes involved in identifying and preventing financial risks. Financial risk management is a particularly “sensitive” and important aspect of risk management for many companies, as it is concerned with protecting the company's finances and preventing losses. Cash flow forecasting, diversification, and sound financial management are important for an effective financial risk management strategy. Effective financial risk management leads to savings in existing costs, optimal decision-making and increased revenue.[3]

According to Professor Burkhanov (2019), financial stability is a comprehensive indicator of enterprise performance based on the simultaneous development of profit and debt repayment, the ability of the enterprise to finance its activities, and the rate of resource turnover.[4] Professor Khamdamov stated that monitoring the financial stability of companies involves regular monitoring, analysis and forecasting of indicators that ensure financial stability, making tactical and strategic decisions and, at the same time, assessing the effectiveness of decisions made.[5]

Solodov makes the following comments on risks. Risk is a situation in which the exact outcome of a company's financial decision cannot be predicted, but the course of action is known, which makes it possible to develop options for solving it.[6] Financial risks are situations (events)

that can change the formation and use of a company's funds, the size and structure of its financial resources, its financial condition. Financial risks in the enterprise economic security system consist of several components that depend on the specifics of the current market situation for a particular enterprise. Stable competitive advantages ensure that the company maintains its market position.[7]

**Research methodology.** The following methods have been used to study this topic: analysis, induction, deduction and observation method. The analysis was carried out using the graphical method and data collection from official sources of official statistics.

**Analysis and results.** Public finance management (PFM) is essential for governments to deliver public services, implement development projects, and promote economic stability. However, it is often exposed to significant financial risks that threaten fiscal stability, economic growth, and the quality of public services. These risks can range from revenue fluctuations caused by economic downturns to unplanned expenditure surges from emergencies like natural disasters. Additionally, with growing debt levels in many countries, debt sustainability has become a major concern, making it crucial for governments to adopt sound financial risk management strategies.

Financial risks in public finance are not isolated. They are often interconnected and can compound one another, with a single event potentially triggering multiple financial consequences. For instance, a global economic slowdown could lead to reduced tax revenues, increased spending on social welfare, and currency depreciation that raises the cost of foreign-denominated debt. This interconnectedness underlines the importance of a holistic approach to managing financial risks in PFM.[8]

Identifying, analyzing, and managing these risks requires a proactive and structured approach. Public finance managers must not only recognize potential risks but also estimate their impacts through various analytical techniques, including sensitivity analysis, stress testing, and scenario planning. Equally important are the strategies for managing these risks, such as building fiscal buffers, diversifying revenue sources, and managing debt effectively. This paper explores the types of financial risks in public finance, offers a detailed approach to their analysis, and outlines effective management strategies. By examining case studies from different countries, the paper seeks to provide practical insights and best practices for policymakers aiming to strengthen their fiscal frameworks and achieve long-term economic resilience.

**Types of Financial Risks in Public Finance.** Effective public finance management requires an understanding of the various types of risks that can impact government finances. These risks fall into several broad categories, each with distinct drivers and potential impacts on fiscal health.

1. **Revenue Risks:** Revenue risks arise from fluctuations in government income, primarily from taxes, grants, or revenue from public enterprises. Economic cycles, policy changes, and external factors (such as global commodity prices) often affect revenue streams. For example, a decline in global demand can reduce tax revenue from export sectors, while policy shifts like tax reforms can disrupt revenue predictability. Such volatility in revenue sources can make budget planning challenging, leading to funding gaps for critical public services.

2. Expenditure Risks: Expenditure risks are associated with unforeseen increases in government spending. This may include emergency expenditures for disasters or health crises, as well as cost overruns in public projects due to poor planning or inflation. These unexpected costs can strain budgets, disrupt planned projects, and create fiscal imbalances. For example, if infrastructure projects face delays, they can incur additional costs, which in turn increases overall government spending.

3. Debt and Interest Rate Risks: Governments often rely on borrowing to fund projects, stabilize their economies, or cover budget deficits. Debt and interest rate risks arise when a government faces increased borrowing costs or repayment challenges due to changes in interest rates or adverse refinancing conditions. Rising interest rates, for example, can increase the cost of existing variable-rate debt or make future borrowing more expensive, leading to higher fiscal pressures.

4 Exchange Rate Risks. Exchange rate fluctuations can be a significant risk, especially for countries with debt denominated in foreign currencies. When a currency depreciates, the cost of servicing foreign debt increases, which can lead to higher budgetary pressures and strain fiscal resources. For instance, if a government has significant USD-denominated debt and the local currency weakens, the debt repayment in local currency terms. [9]

Effective Public Finance Management (PFM) is fundamental to ensuring that governments use public resources efficiently, promote economic stability, and meet their development goals. However, managing public finances involves navigating various financial risks, including macroeconomic shocks, fiscal imbalances, institutional weaknesses, and market fluctuations. These risks can threaten fiscal sustainability, hinder economic growth, and undermine social and infrastructure investments if not properly identified, analyzed, and managed.

The identification and analysis of financial risks require both quantitative and qualitative approaches, including sensitivity analysis, stress testing, and institutional assessments. Public Debt Sustainability Analysis (DSA) also plays a vital role in ensuring that a country's debt remains manageable and that debt servicing does not crowd out other critical expenditures. By understanding the potential vulnerabilities in their financial systems, governments can better prepare for adverse economic events, thereby minimizing the chances of fiscal crises. To manage financial risks effectively, governments should adopt a comprehensive risk management strategy. This can include diversifying revenue sources, strengthening fiscal frameworks, improving institutional capacity, enhancing transparency, and carefully managing public debt. Additionally, contingency planning and fiscal buffers (such as sovereign wealth funds or contingency reserves) can help mitigate the impacts of unexpected shocks.

Ultimately, robust public finance management requires a balance of risk avoidance, resilience-building, and strategic planning. Governments must remain vigilant and proactive, constantly adapting to changing economic conditions and evolving fiscal challenges. By doing so, they can not only safeguard public finances but also ensure long-term fiscal sustainability, economic growth, and improved living standards for their populations.

Many factors that generate risk are the environment for carrying out entrepreneurial activity for a significant number of economic entities. Each of them would like to have tools for timely identification of risks, taking them into account when building financial and economic policies, and minimizing negative financial consequences. Risk management is entirely the

prerogative of the enterprise itself. The successful functioning of a commercial organization depends on a rationally built risk management system, which on a macroeconomic scale means the effective operation of the most important link in the financial system, which is the implementation of entrepreneurial initiatives of the middle class, creating jobs and being the main source of cash receipts to budgets at various levels.

In this regard, the issues of studying the essence of determining the features of risk management and identifying ways to minimize them in modern economic conditions seem relevant.

In a market economy, the financial and commodity market conditions are such that when preparing and making a financial decision, it is impossible to be completely sure what changes in the business environment will result from the introduction of certain assets, what changes the market expects in the near future due to changes in interest rates, exchange rates or changes in demand. However, by studying the investment decision, identifying key factors that generate financial risks, identifying potential hazards and analyzing possible consequences, it becomes possible to apply measures to neutralize risks or mitigate undesirable consequences as a result of the occurrence of certain risk events.

As noted above, risk can be characterized by the occurrence of events with both a negative and zero, and a positive outcome. However, most often, financial risk is characterized by the level of possible adverse consequences. This is due to the fact that the negative consequences of financial risk entail the loss of not only the planned profit, but also the capital of the enterprise, which can lead to the termination of its activities and to possible subsequent bankruptcy.

When making a decision regarding the financial and economic activities of the organization entrusted to him, the financial manager always faces an increase in the level of risk, which is caused, first of all, by the inaccessibility of precise knowledge about the future. In this situation, the manager can choose one of three alternatives: either refuse to make a questionable decision, or agree to accept an increased risk, or try to justify his decision, while collecting and comprehending the information accompanying the decision being made.

It should be noted that the refusal to implement new projects, to conclude new contracts is not optimal from the point of view of the development of the enterprise; such a path eventually leads to stagnation and deadlock. An ill-considered risky decision is also an irrational decision; in this case, increased profitability may be accompanied by excessive financial losses in the event of the risk situation being realized. In addition, this path, in the case of a one-time success, cannot mean stable success.

Thus, a rational understanding of the situation of making a risky decision, identifying its possible consequences, both positive and negative, as well as developing compensation mechanisms in the event of an undesirable development of events, are components of the most effective behavior of an economic entity in relation to a situation accompanied by risk.

It is the approach described above that is characteristic of the so-called concept of acceptable risk. The essence of this concept is the desire to create such a small danger that would be acceptable for a given enterprise. In this case, the assertion that it is impossible to completely eliminate the risk is taken as a postulate.

The extent to which a particular risk is acceptable or unacceptable is decided by the managers of the enterprise. The outcome of this decision will affect many types of input data and decisions, among which the cost of risk will occupy a leading place, since this is the main task of risk management.

It should be noted that financial risk is a largely controlled process in the activities of a commercial organization. Its parameters and initial level are subject to the influence of the control subsystem, which can be the financial managers of the organization. Such an impact is possible only on the studied risk. This leads us to the idea of the need to study the risk, analyze the reasons for its occurrence in business situations, identify and identify its characteristics, composition and significance of risk factors, as well as the scale of the consequences of their manifestation.

Possible negative consequences of strategic decisions that were made and implemented without taking into account the risk can have a negative impact on the enterprise. Such consequences include, for example, a decrease in stock prices, a decrease in profits, a decrease in profitability, inefficient costs of material, labor and financial resources, overstocking of warehouses with finished products, lost profits and economic losses. Thus, the concept of acceptable risk guides the financial manager to a conscious attitude towards risk, and also offers certain principles for seeing risk and its place in the activities of a commercial organization. Firstly, risk is not a static characteristic, but it is a controlled parameter, the level of which must be influenced in order to reduce it to a certain acceptable value.

Secondly, to implement the previous statement, the risk must be studied, which is implemented through the detection and identification of risk factors, assessment of the consequences of their manifestation, selection of methods for subsequent minimization of the initial level of financial risk or its complete neutralization.

Thirdly, taking into account the risk in the organization's activities, it is necessary to distinguish between the initial level of risk identified in the process of monitoring the environment in which the planned initiative will be implemented, with the level of risk after performing the necessary risk assessment procedures and developing a set of measures to minimize or neutralize its possible negative consequences.

In the modern conditions of development of the domestic economy, a commercial organization faces a significant number of risks of various types. Globalization of the world economy, accompanied by the creation of new financial and production relationships, increases the impact of these risks on business structures. The emergence of risks is influenced by such factors as economic instability in the country, inflation, non-payments, political factors, fluctuations in exchange rates, rising cost of resources in the capital market, increased production costs, etc. In these conditions, managing financial risks and minimizing their initial levels is a priority task of financial management of commercial organizations.

Of considerable importance in risk assessment is the choice of information sources from which one can obtain information about them, as well as determine the content of this information. This allows us to conclude that information support for the financial risk management process is important. Let us highlight the groups of information sources common to all risks that a risk manager can refer to when making a risk management decision:

- 1) organizational chart and decision-making chart at the enterprise under study (areas of activity, interaction of departments, cost analysis, specifics of responsibility distribution);
- 2) cash and information flow charts (production and sales technologies, specifics of its management);
- 3) personnel and management survey;
- 4) statistics (numerical data on business);
- 5) documentation (financial, technical, other information);



6) description of accidents that have occurred (formation of stereotypical decision-making procedures when similar unfavorable situations arise, allows for the implementation of a scenario approach to risk management);

7) results of examinations (a combination of a study of the risk exposure of a specific enterprise and the experience of the expert who conducted the study).

Determining the level of acceptable risk is one of the important points in risk management and decisions on this issue are made under the influence of the following factors:

- features of risk measurement. The value of the risk level, its numerical expression allows you to set appropriate ranges of values for acceptable risk, which will help to control compliance with target settings;

- traditions of doing business in the company in question. As a rule, at enterprises, decisions made regarding what is considered an acceptable level of risk are made by analogy with existing practice. Any deviations from the generally accepted approach are perceived as unfounded;

- specifics of the adopted risk management program. It lies in the fact that the risk managers' understanding of the acceptability of certain risks may change depending on the adoption of different risk management methods.

In practice, the VaR (Value-at-Risk) financial risk assessment method is also often used.

The cost of risk (VaR) is the most common methodology for assessing market risks. After all, as is known, the simplest measure of an investor's dependence on market risks is the amount of change in the portfolio capital, i.e. profits or losses arising from the movement of asset prices. Thus, VaR shows what the amount of losses will be, with a certain probability, over a given period of time. VaR can be:

- historical, in which case the distribution of returns is taken from an already realized time series; in this case, it is assumed that returns in the future will behave similarly to what was observed earlier;

- parametric, in which case the calculations are carried out under the assumption that the type of distribution of returns is known.

Risk management in a commercial organization is not a one-time action, on the contrary, it is a continuous process included in the general enterprise management system to achieve a positive financial result.

Financial and economic activities of enterprises are inextricably linked with the impact of risk, which in the conditions of a market economy is a necessary condition for obtaining income when carrying out entrepreneurial activities. Modern conditions, characterized by instability of financial markets, general economic stagnation processes, give priority to the issues of further study of risk.

**Conclusion.** First and foremost, the identification of financial risks is a foundational step in safeguarding public finances. Various types of risks, including fiscal, operational, and external risks, must be systematically recognized and categorized. Fiscal risks often stem from uncertainties in revenue generation and expenditure commitments, influenced by macroeconomic conditions and policy decisions. Operational risks arise from inefficiencies within government operations, such as inadequate internal controls or corruption, which can lead to misallocation of resources. External risks encompass global economic fluctuations, changes in interest rates, and geopolitical events that can disrupt government financing. By employing robust risk identification frameworks, governments can better understand the unique challenges they face and prepare for potential adverse scenarios.

The analysis of these identified risks is equally crucial. Advanced methodologies such as stress testing and scenario analysis enable policymakers to assess the potential impact of various risk factors on public finances. By simulating different economic conditions and their implications for revenue and expenditure, governments can gain valuable insights into their vulnerability to financial shocks. The integration of both quantitative and qualitative analyses enhances the depth of understanding regarding risk exposure, allowing for more informed decision-making. Moreover, the establishment of clear fiscal indicators and regular monitoring mechanisms can facilitate timely responses to emerging risks.

In conclusion, the effective identification, analysis, and management of financial risks in public finance management are paramount for ensuring fiscal stability and promoting sustainable economic growth. As governments navigate an increasingly uncertain global landscape, adopting a proactive approach to risk management will be essential. Future research should focus on innovative strategies for enhancing risk management practices within PFM, particularly in light of evolving economic challenges and technological advancements. By prioritizing financial risk management, governments can better safeguard public resources, enhance service delivery, and ultimately foster a more resilient economy capable of withstanding future uncertainties. The path forward requires collaboration among stakeholders, commitment to transparency, and a willingness to adapt to changing circumstances in order to achieve effective public finance management in the 21st century.

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