

Are considered the problems of economic convergence Ukraine to the European Economic Area. It has been suggested authors negative impact on the national economy do not so much economic or political factors and more – the nature of the latent factors that are destructive and deepen the economic and social shocks in Ukrainian society. Attention is focused on two issues: the oligarchy politicized and passive behavior of economic relations. Identify measures for solving these and other problems that hinder real economic convergence of Ukraine in the European region.

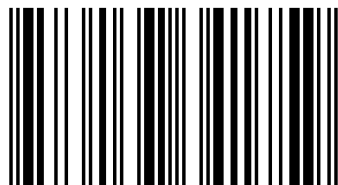


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## Problems of economic convergence of Ukraine to the European union



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UKRAINE  
TO THE EUROPEAN UNION**

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## INTRODUCTION

Formed in Ukraine's economy the market type is the result of faulty models, transformation of ownership by privatization, business relations and Government. Despite the fact that the most promising and strategic businesses and industries have moved into private hands and demonopolised almost all commodity markets, it did not become a factor of economic success – conditions for economic competition are not created, and the market mechanisms or not operating or non-inhibited monopoly entities oligarchic grouping. This, in turn, not contributes to a stable and progressive movement of national economy of Ukraine in the direction of qualitative structural changes. The extremely slow development of the real economy, social infrastructure of the national economy of Ukraine, which hinders the process of economic convergence with the European Union, i.e. the reduction of the gap in terms of economic development, and thus – the acceptance of the EU as an equal partner and as an active subject, not as an object of economic relations. The classic is the idea that the formation of an efficient structure of the national economic system and its convergence with developed countries depends on the alignment of interests on an international level with other countries, different according to the degree of development and integration into the global economic system. That is, it is refers to the multi-vektor integration, which involves not only the emergence of new forms of organization of the market, customs and monetary space, but convergence and mutual adaptation of national economies [1]. However, the economic situation in Ukraine today, indicates that such integration is not enough. Government tries to reassure their citizens about the fact that doing everything possible for the accession to the European Union, but the actual shift is almost absent. In this context it is urgent study of factors which hinder the economic convergence of Ukraine in the European region.

## **1. Factors curbing the economic convergence of Ukraine in the European region**

Problems of convergence of EU economies are seen in the works of Z. Darvasa [2], E. Zervoyani [3], B. Makkoviaka [4], M. Stockera [5], J. Fagoyette [6] and others. Their thoughts about the Maastricht Treaty and problems of his points on economic convergence expressed by M. Baun [7], E. Best [8], F. Vanhonaker [9], F. Larsen [10].

The issue of convergence and mutual adaptation of national economic systems was given considerable attention by such scientists as V. Bakingem [11], O.V. Bulatova [12], E.Y. Vinokurov [13], K. G. Grigorian [14], N. Landret, D.S. Kolander [15], M.M. Kornev [16], M. Marini [17], A.A. Sishchuk [18], who are considering the problem of convergence with various aspects. J. Galbraith considers the technological version of convergence, i.e. in his theory of the problem of convergence of the two systems, he approached in terms of sizes of production, it's technical and organisational side. The inevitability of technological convergence scholar justifies the fact that developed countries are inherent in large scale production, regardless of their political system, which need «about similar systems of planning and organization» [19]. V. Bakingem sees the convergence of single overall economic system [11].

With the formation of the neoclassical theory of R. M. Salou and its subsequent modification of the notion of convergence in economic research takes on a more narrow meaning, as scientists and economists deepened in problems of matching the levels of production of the poor and rich countries.

Given the fact that the regional integration processes between the individual countries of the world are characterized by varying degrees of depth and speed, a comprehensive analysis of these processes is a priority phenomenon that requires study and description. In the scientific economic literature there is no unified approach to the definition of key indicators, indices and measurement criteria of

economic convergence [1]. Nearly unexplored remain problems of economic convergence of Ukraine with the European economic area.

To ensure the stability of the eurozone, were laid down a series of conditions for a legal and institutional nature, as a priority prerequisite for EU accession was the performance of the countries of the stability requirements, stipulated by Maastricht agreement. These requirements apply to such an important component, as economic convergence.

The Maastricht agreement defines the following criteria of economic convergence:

- achieving the appropriate level of price stability. The inflation rate in the country – a potential member of the European Union for the year preceding the year of inspection, is not more than 1,5% exceed the average inflation in the three countries of the European Union with the lowest indicators of inflation;

- ensure proper condition of financial performance in the long term period in order to prevent excessive budget deficits and excessive public indebtedness. The country's budget deficit should not be more than 3% of GDP (referentnand, that is, the maximum permissible value). In according with article 104c of Maastricht Agreement requirement may be considered executed when the level of the deficit exceeds the reference value, but for the last time relentlessly closer to it and when verifying almost reached the mark of 3%;

- avoiding excessive public debt and, that is, the ratio of the actual government debt to GDP should not exceed the reference value of debt (60% of GDP). This condition, according to the Maastricht agreement, can also be considered executed when debt levels exceed the reference value, but over recent years relentlessly continually approaching to it and the time the test almost reached the Mark of 60%;

- etc. [20].

Can today's professionals and analysts say that at least one of the above indicators Ukraine has reached convergence, or comes close to it? Despite the fact that the Government with the «pride» declares economic growth in 2016, and predicts

a further revival of the national economy, a situation that has prevailing today into real sector shows otherwise.

We share the opinion of T. Kovalchuk that one of the important and effective factors that led to the current problems is the psychology of temporality, which is governed by big business, and virtually all Governments. The history of the Ukrainian Government, and, consequently, the power rotation is the confirmation of this [21]. Firmly realizing its time, every syllable of the Ukraine Government ask for loans to international organizations, willingly participates in debt, knowing that it's return will be trying to resolve the following command.

We are not against such a policy of borrowing only if funds aimed at investment projects, in capital investments, the development of industry, agriculture, social sphere. However, almost all the funds of the foreign currency loans are used for current needs and replenishment of reserves of the NBU.

Based on the foregoing, the terms of management put forward the objective necessity of the study of the factors that hinder the economic convergence of Ukraine with the standards of the leading developed countries, particularly in Europe.

Retrospective analysis of economic literature revealed the lack of a unified approach to the theoretical substantiation of the essence of the concept of «convergence». In economic theory for the first time this concept appeared in the 1940s-1950s, and was borrowed from natural history, theory of systems where, due to the emergence of a relatively distant groups of organisms are common features in building and functions as a result of vital activity of these organisms in similar environmental conditions. The most common is considered there, which used the word «approach», «similarity» or «becoming like» that used during the analysis of the socio-economic area countries [16].

Assessing the degree of approximation of the economies, using the concept of real and nominal convergence. The first is determined by score of the real GDP per capita, the second is a set of indicators Maastricht agreement in which we have been described above.

Despite the fact that some researchers do not consider these indicators as universal and see in them a number of shortcomings, we can perform a comparative analysis of the indicators of Ukraine and determine whether there are signs of economic convergence of Ukraine and the European Union.

Author's hypothesis is that the negative impact on the state of the national economy have not so much economic or political factors, but latent character factors. To confirm the hypothesis will use dynamic methods and comparative analysis, Pareto, expert assessments.

Known the fact that the material basis of the circularity is physical upgrades core capital, although the immediate impetus for the crisis can be a variety of reasons, and above all, monetary and credit turmoil. Although these shocks also is a consequence, not the cause of the prolonged crisis in the economy. A striking proof of this author's position is the economic situation in Ukraine, a strong impact on the status of any putting internal risks associated mainly with military actions in Donbas. This leads to the need of increasing cost of funding for law enforcement agencies, the restoration of damaged infrastructure, the housing sector, more. But there are also other factors that are, rather, latent in nature, and so – are more threats for Ukrainian society and hinder the economic convergence with developed countries, because they are difficult to detect and evaluate.

Yes, huge rate increases debt dependence, while the volumes of industrial production are reduced and almost missing the growth of GDP. In support of this we give the following statistics. The total amount of State and guaranteed debt over the last three years has 3,5 times (from 549.46 UAH billion in 2013 , up to 1941,36 billion UAH (\$ 71,76 billion.) in the 2017 year), including State external debt during this period increased in 4.7 times and amounted to 977,64 billion UAH (\$ 36.48 billion.) [21].

But same public debt growth in itself does not cause apprehensiveness if the economy works, develops its real sector and is GDP. The results of the comparative analysis of public debt and GDP indicate, unfortunately, that the level of debt security



almost twice exceeded the legal limit of the indicator «national debt/GDP», which not would exceed the 60% because the size of real GDP in 2016 amounted to 2034,43 billion UAH [22] (\$ 75,35 billion) and, the ratio of the «national debt/GDP», respectively – 95,4 %.

It should be noted the special «objectivity» of the Ukrainian statistics. Until 2015, real GDP was equal to the price in 2010, and the results of the 2015 this figure was equal to the price of 2014, in 2016 – the prices of 2015. Instead declared by the World Bank falling in GDP of Ukraine in 2015 at 10% (according to the CIA – 11%) for statistics of Ukraine this figure has increased by almost 35%, and in 2016 – 1%! And while statistics (as a rule) do not correspond to the real numbers, but on their basis one could argue that when the adjustment of the ratio of national debt of Ukraine's real GDP exceeds the recommended 60% in 1,6 times. The comments here are unnecessary. The main creditor of Ukraine – IMF predicted increase Ukraine's GDP in 2016 to 2% with inflation at 12%. And although this prediction (for statistics!) almost fulfillment, you should ask yourself is it good or bad for the national economy , and which levers are able to positively affect on the way out of the protracted crisis, and on the formation of fundamentally new national paradigm of economic relations in the Ukrainian society? Analysis showed that the most critical to the national economy of Ukraine are the following factors:

- the growth of the public debt and of exceeding his pace over the pace of GDP;
- the excess of the share of foreign loans to cover budget deficit in 7 times;
- a reduction of 11% of GDP (in the ranking, compiled by the CIA, Ukraine on the growth of GDP was ranked in 2015: 222-nd position of 225 countries [23]);
- significant amounts of shadow economy, the extent of which are not decreasing (table 1).

For comparison, according to the research of Frederick Shneider, the average size of the shadow economy in Europe in 2015 amounted to 18% of GDP. The lowest

share of the shadow economy in GDP traditionally is observed in Switzerland (6,5%), Austria (8,2%), Luxembourg (8,3%), the Netherlands (9%) and the United Kingdom (9,4%). In Germany this index estimated at 12,2% of GDP [23].

Table 1

The scale of the shadow economy in Ukraine in% of GDP

	Period								
	1989	1992	1995	2007	2011	2013	2014	2015	1 quarter of 2016
The share of the shadow economy to GDP	12.0	33.6	48.9	54.9	34	35	42	40	41

[The scale of the shadow economy in post-socialist countries (in% of the country's GDP) was calculated by the method of D. Kaufmann-A. Kaliberda and by the method of M. Lasko]

The results of the World Economic Forum's 2016 – 2017 according to the global competitiveness index Ukraine ranks 85 place with 138 countries were evaluated (table 2) [26].

The real importance of change of the index of global competitiveness is defined taking into account the number of countries, which have been evaluated.

The table shows that in global competitiveness index Ukraine improved its position in terms of «higher education and vocational training, «innovation», but rapidly reduces its position on the indicator of the development of the financial market».

Table 2

## Competitiveness of Ukraine in the world

The index of global competitiveness (the position of Ukraine on the main components)	Years							
	2014-2015 (144 countries)	2015-2016 (140 countries)			2016-2017 (138 countries)			
		index	index	increase ↑ / decrease ↓		index	increase ↑ / decrease ↓	
				nominal	real		nominal	real
Institutions	130	130	-	↓	129	↑	↓	
Infrastructure	68	69	↓	↓	75	↓	↓	
Macroeconomic environment	105	134	↓	↓	128	↑	↑	
Health care	82	82	-	↓	83	↓	↓	
Higher education and professional training	40	34	↑	↑	33	↑	↑	
The efficiency of market	112	106	↑	↑	108	↓	↓	
The efficiency of the labour market	80	56	↑	↑	73	↓	↓	
The development of financial market	107	121	↓	↓	130	↓	↓	
Technological readiness	85	86	↓	↓	85	↑	↓	
Compliance with the requirements of the modern business	99	91	↑	↑	98	↓	↓	
Innovation	81	54	↑	↑	52	↑	↑	

This is due to the ineffective policy of NBU, the lack of reforms in the field of development of non-government pension provision, underdevelopment of the Ukrainian stock market, etc., but confirms the fact that Ukraine has significant intellectual potential, which, unfortunately, not valued and not supported by the State and big business. In addition, the reforms that are necessary on the path of convergence, slowed or are one-sided nature. So, in our opinion, the Ukrainian Government uses just destructive measures, without trying to hold back or smooth

economic and social shocks that accompany these actions. For example, the gradual withdrawal of energy tariffs to the European level is not justified economically, because the main energy supply companies with funds not updated during Soviet times, and wear the networks supply exceeds 80%.

Another step of the Ukrainian Government to the convergence was the termination of government regulation and actually control the formation of consumer prices for food, medicines, and other socially important products. Dropped the concept of «maximum ROI», limiting the level of allowances. Consequently: oligarchic group retail chains of hypermarkets, which actually form a private monopoly formations, acting in concert when setting prices. Antimonopoly Committee thus detects inactivity, which can also qualify as a destructive latent management. This has led to the arbitrary increasing prices of the most popular food: bread is at 47%, pasta – 49%, fish – 51%, fruits, vegetables – 67%, utilities increased three times, medical – almost double. For the six years the life of average Ukrainians increased by 80%, and real income has decreased more than 10% [27].

In earlier publications we justify conceptually economic model of national economy of Ukraine, which would be satisfied with the economic interests of the majority of citizens and society in general [24, 25]. We defined components of a successful economy:

- 1) information and informatization;
- 2) intellectual capital;
- 3) availability of resources.

We considered those three components, using philosophical concepts and Pareto principle. Grounded presence of deregulation of these components of a successful economy in the Ukrainian society.

This disbalance leads to negative consequences in the Ukrainian society, which hinder the economic convergence. Namely:

1) in Ukrainian society perceive information, interpret it, have access to information sources and technologies. Result: information – weightiest arms control community;

2) level of intellectualization of the human capital and the desire for continuous self-improvement and self-education. Consequence: the ease of managing the crowd with a low intellectual level, are not able to have their own opinion and position;

3) in access to resources and other economic and social benefits. For the Ukrainian society a disbalance in the access to material resources and goods is 90:10. The consequence is the stratification of society on the rich and the poor, the almost complete destruction of the «middle class».

These patterns have spawned two big problems in Ukraine: 1) politicized oligarchy; 2) passive behaviour of the participants of economic relations. These problems are disease of the Ukrainian society and latent factors containment of economic convergence in the European region. Because these imbalances by Pareto are causes of mass diseases of mankind, that little investigated, but because scientists have not yet classified, and thus – the diagnosis is not represented in the timeline of medical diseases.

The question arises: is it possible to overcome these «diseases» in the body of the national economy, which we have identified as «passive behavior of the participants of economic relations through ignorance» and «politicized oligarchy»? The answer is simple, and it's a lot of talk, but few do. Known ancient folk wisdom: Everybody wants to change the world, but no one wants to start with yourself! Declare can be beautiful and a lot. But nothing will change until every member of the Ukrainian society (top – down) do not realize that changes need to start with yourself. Then will appear in those who have the opportunity to do real economic reforms that would have made Ukraine a successful, prosperous country, contributed to the real economic convergence of Ukraine with the developed countries of the European Union.

Consideration of the problems that hinder the economic convergence of Ukraine with the European region has reached conclusions on the need to development and implementation of the state accommodative policy, aimed not at the exacerbation of social tension in the Ukrainian society and deepening of the economic crisis, but to mitigate the shock effects, due to convergence processes. In this context Ukraine must take into account the relevant experience of the countries of EU and apply the most effective tools of convergence and measures shock against state regulation, in particular, such as:

- building export capacity and activation of foreign trade;
- software innovative restructuring of the economy in general and the sphere of employment in particular;
- the increase of the educational qualification level of labour resources and the formation of favourable conditions for creative implementation of scientific and innovation on the Ukrainian markets, stopping the outflow of intellectual capital;
- ensure strict control over the use of international organizations funds in the economic development of the sectors of the national economy, the structural changes in the economy, creating innovative, energy-efficient industries and new jobs;
- take structural measures for bringing the economy to separate government from business;
- the formation of a new national paradigm of social and economic responsibility to the society, which is based on the principles of corporate culture and ethics in civil and economic relations.

## 2. Problems of corruption in Ukraine

In today's difficult economic and political situation, the Ukrainian nation is looking for ways of a stable yet fast development of the country, thus creating a need to resolve the issues that make such development impossible. One of the problems that stand on a path to a better future is corruption, which has seeped into every existing layer of life in our country, preventing effective use of government resources and as a result, decreasing the level of comfort of Ukrainians in general. In the article, we have researched corruption, its main definitions as well as its influence on a country's economy.

There are quite a lot of publications, both in Ukrainian and foreign scientific practice, concerning anti-corruption efforts. This topic has been researched by scientists like Zhuravskiy V. S., Kostenko O. M., Melnyk O. M. [1], Mykhalchenko O. M., Mykhalchenko M I., Nevmerzhytskyy Ye. V., Ryevak I. O., Rusnak Yu. I., Shamrai V. O. Scientific theory on the issue of corruption is showcased in works by G. Nay, V. Kleiner. Nonetheless, the problem of corruption is still relevant due to the fact that stopping its influence on the national economy is nearly impossible.

The universally accepted definition of corruption is linked to the origins of the word itself, from Latin «bribery of social or political figures to achieve personal goals» [28, p.190]. The Ukrainian dictionary of law lists corruption as, one of the forms of power abuse that is linked with bribing officials [29, p.308].

The most common definition of corruption was argued by G. Nay in 1967. According to the author, corruption is a dual behavior pattern. On one hand, it is a deviation from social norms as a way to make personal, financial or status gains, on the other, it violates the rules of personal involvement in social rules.

A concise definition used in practice as well as during economic research, was suggested by experts from the World Bank. In their opinion, corruption is a «power abuse for personal gain» [30, p.8].

Some authors define corruption within the frame of decisions being optimal or not optimal from the point of view institutions, in which officials hold their power. Thus, G. Kleiner suggests the following definition of corruption – «a conscious and voluntary decision made by an official in an institution, whether in the government or private sector, that is suboptimal from the perspective of the institution but leads to additional personal gain by the person in charge or people that depend on that person» [31, p.33].

A similar definition is given in the Ukrainian Law «On preventing corruption». In the first section of this law, corruption is defined as the use of personal competencies or other opportunities by an official in order to achieve unauthorized gain or accepting such again or to accept a promise/offer of such gain either personal or towards other people, or an unauthorized promise or offer, or if demanded, gains aimed at other individuals or legal entities, all of the above aimed towards inducing an abuse of power by an official.

Table 3

#### Experts' approach to classifying corruption

Experts	Classification
N. A. Katayev and L. V. Serdyuk	1. Criminal corruption (mostly of a financial type) 2. Political corruption (which is also divided into punishable and rejected corruption) [31].
M. Johnston	1. Bribery of officials in the trade sector (to sell illegal items or to overrate its quality etc); 2. Relationships in a patronage system, including a «boss» protection on a basis of kinship. Friendship, nepotism or other principles; 3. Crisis corruption, which is caused by the fact that entrepreneurs have to work in in conditions of uncertainty and risk, when a decision made by government officials can lead to significant change in the state of business and so those decisions become an object of trade [32].
Ya. Kuzminov	1. Bribery and venality; 2. Corruption of the «top» and the «bottom»; 3. Corruption in the government (municipal) and private sectors [33].
N. I. Melnyk	1. Acts of corruption related to power abuse or misuse of position competencies in order to receive material benefits, advantages or services or to receive ownership of or rights to a property; 2. Acts of corruption, related to power abuse or misuse of competencies in order to receive non-profit, personal or third-party benefits [34].



To understand corruption substantially, its political and economic core, it is vital to categorize corrupt actions. It is important to mention that there is quite a wide variety of categories of corrupt actions in scientific practice already. This is related, first of all, to the fact that it is difficult to make an universal criteria to classify corrupt actions, considering its variety of forms.

After doing the research based on works by known authors on corruption action classification, it is noticeable that in doing a classification like this, that it is a necessity to use a multi-criteria mechanic, based on which it is possible to get a better grasp on the subject We suggest a classification structure that can fulfill the above requirement within the framework of the article and according to its aim.

Table 4

#### Classification of corruption

Attribute of classification	Types of corruption
Based on the initiative in the corruption-based relationship	1. Bribe demands by officials; 2. Bribing officials, initiated by the bribe-giver; 3. Traditionalism in corruption-based relationships.
By level of spread and organization of the corruption-based relationship	1. «Bottom» corruption: local and regional 2. «Top» corruption: national or international;
Based on regularity of acts of corruption	1. Episodic corruption 2. Systematic or institutional corruption; 3. Cleptocratic corruption
Based on the centralization of corruption-based relationships	1. Decentralized corruption (random); 2. Centralized corruption (bottom-up); 3. Centralized corruption (top-down).

Corruption is almost never considered as a factor in the state of a financial security of a country, and that is why after researching respected authors' and their publications, it can be said that the issue of influence of corruption on a country's financial security hasn't been examined enough.

First of all, it is important to note that the main system on the government level is national security that includes economic security as a subsystem In turn; financial security is a subsystem of economic security.

Experts from the Ukrainian centre of economic and political research named after O. Rozumkov define economic security as «a country having sufficient ability to

support a reproduction of productive potential in the industrial, agricultural, and all other sectors where socially useful labor is implemented, as well as to support social stability and a country's independence» [34, p. 86].

Thus, economic security needs to be viewed as a basic part of national security, its foundation and material support, as well as an interconnected system of certain levels. That means, that the state of national security of a country depends on the vitality, mobility, and competitiveness of an economy, so providing a sufficient level of economic security is one of the most important tasks of a country.

Most of the scientists that research economic and financial security state the fact that, financial security is the most important part of economic security of a government, because any economy is based on finance. Thus the need to provide and support financial security of a country is argued, since it affects all levels of economic life in a country, be it the private sector, entrepreneurs, or individuals.

Table 5

## Defining the term «financial security»

Author	Definition
O. Baranovskyk [36]	Financial security is seen as the state of protection of financial interests; the level of financial resource security for subjects of all levels of management; the state of the financial market parts; the quality of financial tools and services; the state of cash flow in an economy, that allows financial security to be considered one of the most important elements that create the economic security system as a whole.
O. Vasylyk [37]	Financial security is a reliable protection of the financial system from internal and external threats.
O. Vlasyuk [38]	Financial security is the most important pillar of economic stability, supporting the industrial basics by infrastructural institutions that distribute financial resources and investments.
V. Geyets [39]	Financial security is the stable development of a country's economy, as well as its protection against internal and external shocks.
A. Sukhorukov [40]	Financial security is the security of government interests in the financial sector or such a state of budget, tax and monetary levels of economy, that guarantees that a country can effectively form, protect from extreme inflation as well as rationally use financial resources to support its social and economic development and to pay its debts.
V. Shlyemko and I. Bin'ko [41]	Financial security is such a state of the monetary, currency, tax, budget and bank systems, that can be described as balanced and stable despite negative internal or external influences, as well as being able to provide the conditions for effective operation of the national economic security and development.

Financial security is a state of the financial system, in which the conditions for a stable social and economic development of a country are met, a stability against negative shocks is provided, and the wholeness and unity of the financial system is

kept. In its turn, financial security is divided into 6 main parts, which can be seen on Fig. 1.

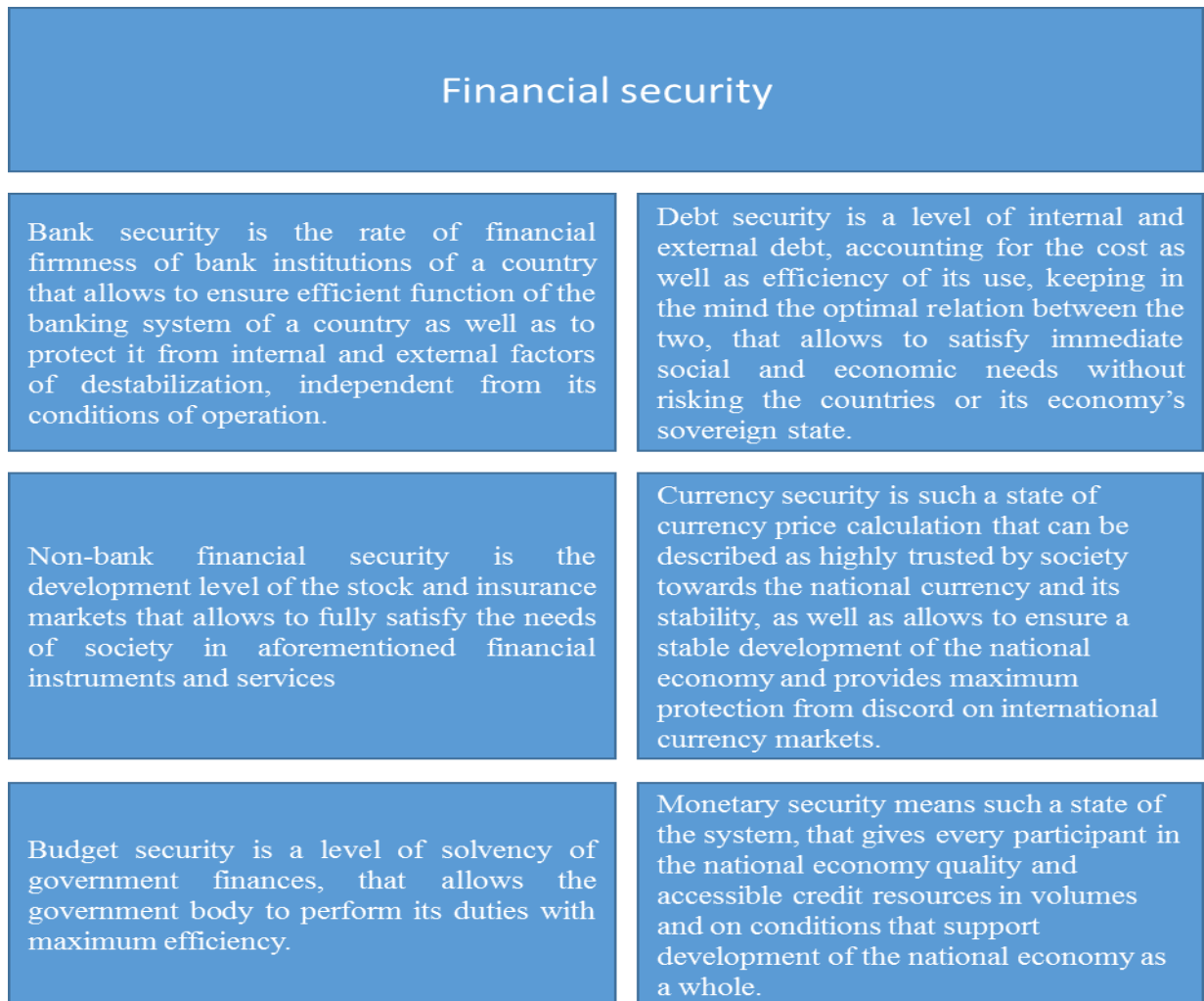


Fig. 1. Parts of financial security

It's noteworthy that all of the parts of financial security listed above have a high rate of correlation with corruption of a country, because the efficiency of official operation decreases, since they have to make decisions to benefit society, and if you only account for the interests of a small group of people, the overall level of development, be it government finance or the economy in general, becomes worse as a result.

In global practice, the World Bank has been publishing the Worldwide Governance Indicators since 1996.

The research methodology includes 6 indicators that reflect different levels of government management, where every single indicator gets rated on a scale from 0 to 100, where 0 is the worst possible result and 100 is the best.

Table 6

## Ukraine's Governance Indicators for 2015

Taking into account the opinion of the population and accountability of authorities	46
Political stability and absence of violence	42
Government efficiency	22
Quality of legislation	32
Primacy of law	23
Inhibition of corruption	17

According to the above data, Ukraine doesn't even reach the median value of the scale.

A higher priority is given towards governance rating methods that allow measuring the level of corruption in a government. The Global Corruption Barometer – is a phone, private and network public opinion poll, that researches the point of view on corruption and looks for past experiences related to this phenomenon.

The latest poll took place in 2016 and 114 270 people from 104 countries around the world participated [42]. The respondents from Ukraine rated the following systems as extremely corrupt: the judiciary (87% – «top» rating), the police (84%), officials of various levels (82%), the parliamentary and healthcare systems (77%), political parties (74%), the education system (69%), business (65%), the military system (52%). Citizens give the most trust towards religious organizations, only 37% of the participants considered those organizations extremely corrupt. 37% of Ukrainian participants have given a bribe in the last 12 months and only 29% of the participants believe that they can personally influence the anti-corruption efforts in the country. (one of the lowest results in the poll, eg. Russia has 44%, the USA – 76%) [52].

Nations in Transit – an annual comprehensive comparison rating of the 29 ex-communist countries in Europe and Asia. Freedom House uses 7 indicators in their research: the electoral process (free elections); civil society (third sector, non-government organizations); mass media independence; democratic governance on a national level (government branch cooperation); democratic governance on a local level (local authority); judiciary (its independence); corruption. The rating is done on a scale from 1 to 7, where 1 is the best possible result, and 7 – the worst.

Table 7

## Ukraine's Nations In Transit rating dynamics 2006–2015.

	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Democracy of governance (national level)	4,50	4,75	4,75	5,00	5,00	5,50	5,75	5,75	6,00	6,00
Democracy of governance (local level)	5,25	5,25	5,25	5,25	5,25	5,50	5,50	5,50	5,50	5,50
Mass media independence	3,75	3,75	3,50	3,50	3,50	3,75	4,00	4,00	4,25	4,00
Civil society	2,75	2,75	2,75	2,75	2,75	2,75	2,75	2,75	2,50	2,25
The electoral process	3,25	3,00	3,00	3,50	3,50	3,50	3,75	4,00	4,00	3,50
Judiciary	4,25	4,50	4,75	5,00	5,00	5,50	6,00	6,00	6,00	6,00
Corruption	5,75	5,75	5,75	5,75	5,75	5,75	6,00	6,00	6,25	6,00

«Shadow» economy is the epitome of how corruption intertwines with financial security of a country.

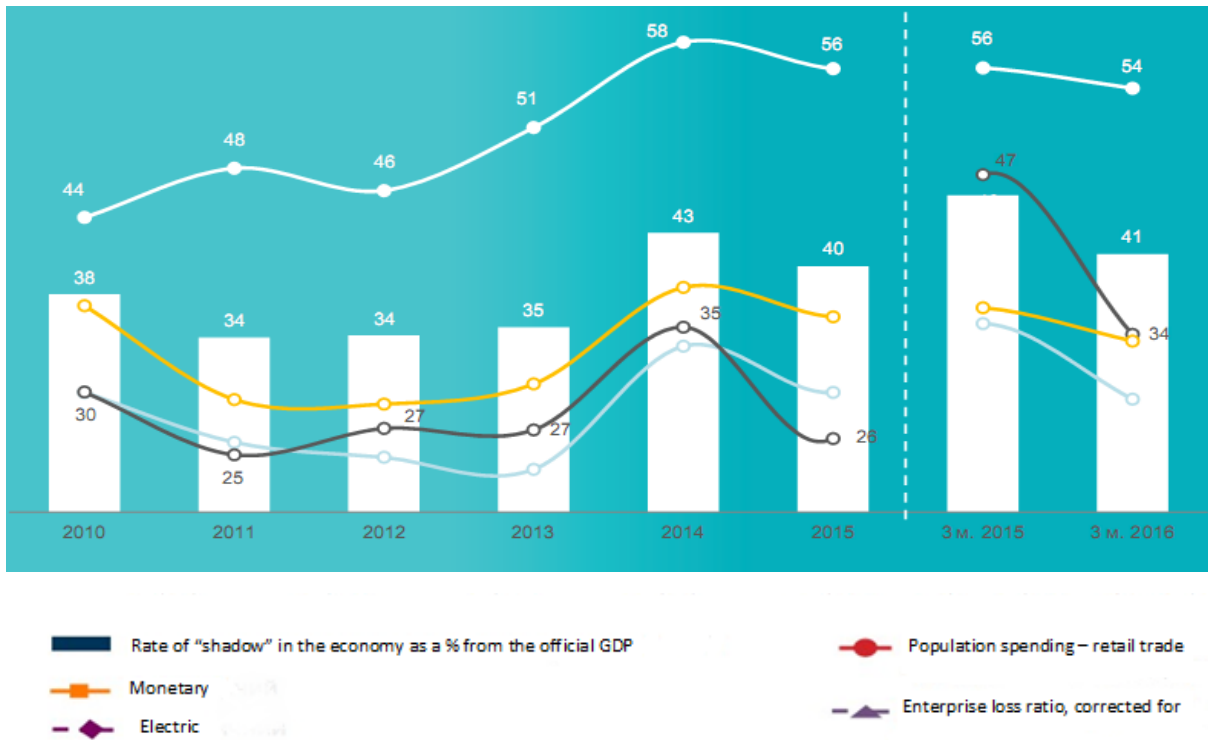


Fig. 2. The dynamics of shadow economy rate as a % of the official GDP

According to experts' calculations, the shadow economy constitutes a 40-60% part of the GDP (Ukraine's Ministry of Economy states a 47%). The current level of shadow in the economy has reached the dangerous point, where it is possible to consider an extended reproduction of shadow financial relations in the country. The main issue of shadowing the financial cash-flows lies in use of financial institutions, especially banks, insurance companies, stock brokers, credit groups to inefficiently withdraw funds, to evade taxes and to avoid legalization of profit, earned through crime.

According to experts, the losses of profit from shadow economy annually are 12-13 billion uah [43].

In international ratings, Ukraine has a very bad reputation and, sadly, is described as unstable, unreliability and high levels of corruption. Such a state of affairs can't positively influence development of international relations or efficient foreign policy. That being said, there is another side to the current reputation.

The only periodic analytical paper that assigns ratings to countries based on reputation is The Country RepTrak. The developers are from the consulting company

Reputation Institute. The company's experts have created a rating system, that allows monitoring the influence of reputation on competitiveness, investment attractiveness, development of trade and tourism. Countries are rated on a 100-point scale with criteria such as trust, interest, political views and foreign policy, business climate, quality of trade, services, infrastructure and living conditions, natural and tourism resources.

The Reputation Institute experts hold the view, that «reputation means money». They highlighted a very strong correlation between a country's reputation and the desire to visit, buy products, produced in the country, invest in it and pursue education or a career there.



Fig. 3. Country RepTrak, 2017 [44]

As seen on Fig. 3, Canada holds the 1<sup>st</sup> place in 2017, and the last is Iraq. In total, 55 countries around the world were rated. Ukraine is on the 45<sup>th</sup> position, only 5 positions ahead of Russia (51<sup>th</sup> place).

The authors of the rating argue that the 3 main indicators of a country's reputation are: quality of life (appealing environment); quality of government institutions (efficiency of governance); rate of development (development of

economy). In that context, the top 3 on the list are Canada – appealing environment, Japan – developed environment, Sweden – efficiency of governance. That being said, the authors mention that the biggest and/or most developed countries are not always the ones with the best reputation, but the happiest people live in countries that have a good reputation, are in peace and have a low level of corruption [44].

In order to decrease the spread of corruption, to diminish the costs related to the negative impact of corruption in the national economy, it is necessary to implement a complex anti-corruption effort system. The foundation for such a system is the idea of synergy between government institutions and civic organizations. This policy will be supported by economic reforms aimed at creating market relations and institutions, more efficient control of information by the executive branch of government against corruption, attracting scientists and the civil society to develop, implement and monitor the efficiency of anti-corruption efforts, as well as by forming a negative opinion on corruption in our society using the media. Implementing this systematic approach will allow to defeat corruption and its societal impact and to reach a point of stable development economically and socially.

In our opinion, one of the most important factors of anti-corruption efforts is to form a clear cooperation between countries, primarily between their executive bodies, joint participation in events organized by the UN, Council of Europe, Interpol, IMF, World Bank as well as other international organizations. However, the most vital part is the need for Ukrainian officials that hold high-power positions to become aware of the urgency of anti-corruption activity, on every level of governance. Further research can be done on the correlation between the rate of «shadow» economy and level of corruption, as well their impact on Ukraine's entry to the European Economic Space.



### **3. Risks of fraud, prevention and resistance of laundering «dirty» money as a part of the state regulation of national security**

The spread of such a socio-economic phenomenon in Ukraine as the shadow economy, as well as the volumes of products and financial resources that are rotated in this area, represent a significant obstacle to ensuring the sustainable development of the national economy and the investment attractiveness of Ukraine for the EU. A significant problem is that the overwhelming majority of transactions that may be classified as shadowy are usually carried out in the legal regulatory field, and the fact that shadow activity has to be carried out requires significant efforts by public authorities. But most often, such efforts of government agencies are accompanied by a reluctance to take radical measures to combat the shadow sector, since government officials themselves are active participants in shadow schemes. This is one of the important reasons for the containment of European integration processes in Ukraine.

For example, such a phenomenon as «laundering» has a very negative effect on society, since it violates the interests of legitimate businesses and the reputation of its individual segments and participants, undermining public confidence in the entire financial system and threatening the normal functioning of the country's credit and financial institutions. Moreover, it poses a certain threat to the economic security of any state, as it has a transboundary nature, and money received illegally can be directed to financing terrorism and undermining the state system of governance in the country.

In the context of the global problem, the United Nations International Convention on the Elimination of Terrorist Financing of 1999 was adopted, according to which each country should take immediate steps to ratify and fully implement it.

Countries also had to comply immediately with UN resolutions on the prevention and suppression of terrorist financing, in particular UN Security Council Resolution 1373, and a number of other international instruments. Thus, countries should have existing state mechanisms for identifying physical cross-border

transportation of currency and other bearer financial instruments, including a declaration system or other reporting obligations.

It should also be ensured that there are legal powers of the competent authorities to stop or hold a currency or other bearer financial instruments for which there is a suspicion that they are related to the financing of terrorism or money laundering or that they have been falsely declared or that they have received false information. Countries should ensure that there are effective, proportionate and convincing sanctions that can be applied to persons committing false declarations or communications.

For situations where the currency or other financial instruments are related to the financing of terrorism or money laundering, countries must take measures, including legislative measures that are consistent with Recommendation 3 and Special Recommendation III, and would allow the confiscation of such currency or instruments.

According to recommendation 19, countries needed to consider the feasibility and effectiveness of a system in which banks and other financial institutions and intermediaries would report national and international currency transactions exceeding a certain fixed threshold to national central authorities. Messages are made on a computerized database that can be provided in the investigation of cases involving money laundering or terrorist financing to the competent authorities, subject to strict rules for the proper (confidential) use of information.

Earlier, in November 1990, the Convention on Laundering, Search, Seizure and Confiscation of the Proceeds of Incarceration was signed. Many post-socialist countries have acceded to the Convention (for example, Ukraine has done this in 1995, and ratified it in 1997), and had to ensure the implementation of the UN recommendations by formulating appropriate regulatory tools to combat money laundering and terrorist financing [45]. Thus, countries were obliged to adopt the relevant laws and ensure the activities of the institution responsible for monitoring the suspicious financial transactions.

The countries that have ratified the convention have established mechanisms to combat money laundering. An example of the organization of measures to combat money laundering is given in the table [46].

Table 8

## World experience in organizing anti-money laundering measures

Normative and organizational support	Country			
	USA	Spain	Canada	Poland
Law	PATRIOT Act 2001 (Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism)	Law No. 19/1993 of 29 December 1993 «On Certain Measures Against the Misuse of Money Laundering» (On determined preventive measures against money laundering)	Law «On combating illegal money laundering and terrorist financing»	Law of 16 November 2000 «On combating money laundering and terrorist financing»
Authorized authority	Department for combating financial crime (FinCEN (Financial Crimes Enforcement Network))	Anti-moneylaundering commission	Canadian Center for Financial Transactions Analysis and Reports	General Inspector of Financial Information (Generalny Inspektor Informacji Finansowej – GIIF)
Subordination	Ministry of Finance of USA	Ministry of Finance	Ministry of Finance of Canada	Ministry of Finance
Financial transactions which are subject to monitoring	The list is rather broad, not clearly defined separately	Transactions related to the transfer of cash, checks or other bearer documents, as well as transactions with residents of offshore jurisdictions for an amount exceeding 30 thousand euros	Transactions in excess of 10 thousand dollars	The regulatory amount of the monitoring is equivalent to 15 thousand euros
Features	Criminal liability for the legalization of illegal assets, including negligence, may amount to a fine of up to \$ 1 million, imprisonment up to 20 years, confiscation of property	Criminal liability for violations of financial monitoring legislation in Spain ranges from six months to six years in prison.	Penalties up to \$ 2 million USA, as well as imprisonment for up to 5 years	The commission of a crime concerning the legalization of any assets obtained illegally, is punishable by imprisonment from 6 months to 10 years, provides for the confiscation of property

For example, the United States is not only the founder of the term «money laundering», but also the most active fighter against the legalization of illicit funds and terrorist financing. Criminal liability for the legalization of illegal assets, including negligence, may amount to a fine of up to \$ 1 million, imprisonment up to 20 years, and confiscation of property [47].

The well-known American legal act – PATRIOT Act 2001 (Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism) has established three basic elements of the system for combating money laundering and terrorist financing of each entity of financial monitoring: 1) development internal anti-money laundering procedures; 2) the procedure for identification of the client and his beneficiaries; 3) the procedure for informing about suspicious transactions

The countries of the post-socialist space also joined the international conventions to combat the laundering of «dirty» money. The analysis and generalization of the measures taken in this direction by Georgia, Ukraine and the Russian Federation is reflected in the table 9.

Among the considered countries, Russian Federation was first which adopted the relevant legislation. However, does Russia comply with international requirements to prevent the financing of terrorism and create conditions for threatening the security of another country – the question is open, and the answer is negative [48, 49]. The laws of these countries define financial transactions subject to financial monitoring, including money transfers.

Table 9

Experience in implementing measures to counteract the legalization of revenues received illegally in Ukraine, Georgia and the Russian Federation

Normative and organizational support	Country		
	Russian Federation	Ukraine	Georgia
Law, year of adoption	About counteraction of legalization (laundering) of proceeds from crime and financing of terrorism, July 2001	About Prevention and Counteraction to the Legalization (Laundering) of the Proceeds from Crime or the Financing of Terrorism, November, 2002 (in the wording of 2014, the law is entitled «On Prevention and Counteraction of the Legalization (Laundering) of the Proceeds from Crime, Terrorist Financing and Financing of the Proliferation of Weapons of Mass Destruction»)	About promoting the termination of legalization of illegal revenues, June 2003
Authorized authority	Federal Department of Financial Monitoring	State department (committee) of financial monitoring	Agency of Financial Monitoring Service
Subsidiary of the authorized state agency	Ministry of Finance	Ministry of Finance (from 2014 – National Bank)	National Bank
Features of monitoring	The list of financial monitoring objects has not expanded since the adoption of the law	The list of financial monitoring objects has expanded and improved with the adoption of the new law	In 2012, financial monitoring of political parties was introduced

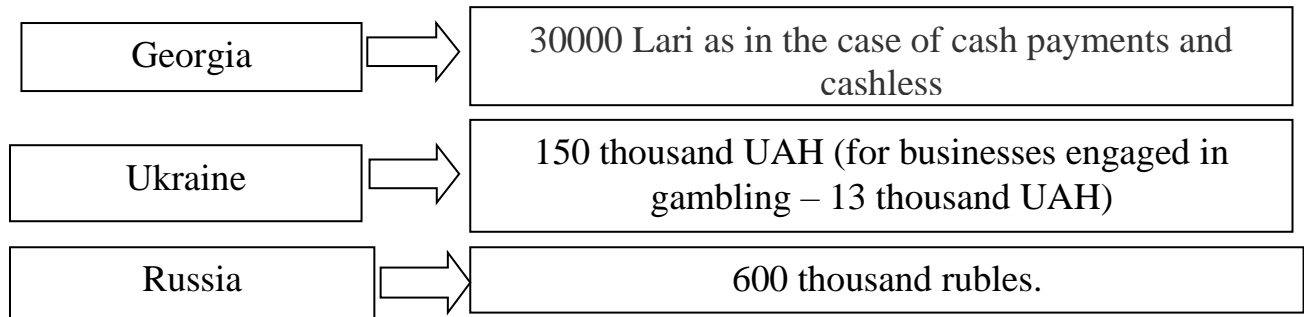


Fig. 5. Money transfers subject to state financial monitoring

In addition, in 2004, a Memorandum of Mutual Cooperation of the Financial Monitoring Service under the National Bank of Georgia and the State Financial Monitoring Service of Ukraine under the Ministry of Finance was signed in Tbilisi. The memorandum foresees cooperation between Georgia and Ukraine in the fight against the legalization of illicit proceeds and terrorist financing, exchange of experience and information. Georgia and Ukraine are members of the International Association of Financial Monitoring Services – EGMONT, which includes more than 80 countries.

Thus, in the countries under consideration, at the legislative level, all necessary measures have been taken to comply with international law on combating the financing of terrorism. But this is only theoretically.

Consider the practical aspect of this problem. Since money laundering is an important element of the shadow economy, it is advisable to analyze the dynamics of the shadow economy of Ukraine, Georgia and the Russian Federation.

Table 10

Scale of the shadow economy in% of GDP

Country	Period							
	1989	1992	1995	2007	2011	2013	2014	2015
Georgia	12,0	52,3	62,6	68,8	72,5	40	32	36
Russia	12,0	32,8	41,6	48,6	46	42	43	43
Ukraine	12,0	33,6	48,9	54,9	34	35	42	40

[The magnitude of the shadow economy (in% of GDP of the country) calculated according to the methodology of D. Kauffmann - A. Calibrde and M. Lasco)

For comparison, I would note that, according to Friedrich Schneider, the average size of the shadow economy in Europe in 2015 was 18% of GDP. The lowest share of the shadow economy in GDP is traditionally observed in Switzerland (6.5%), Austria (8.2%), Luxembourg (8.3%), the Netherlands (9%) and Great Britain (9.4%). In a country with the most powerful European economy – Germany – the figure is estimated at 12.2% of GDP.

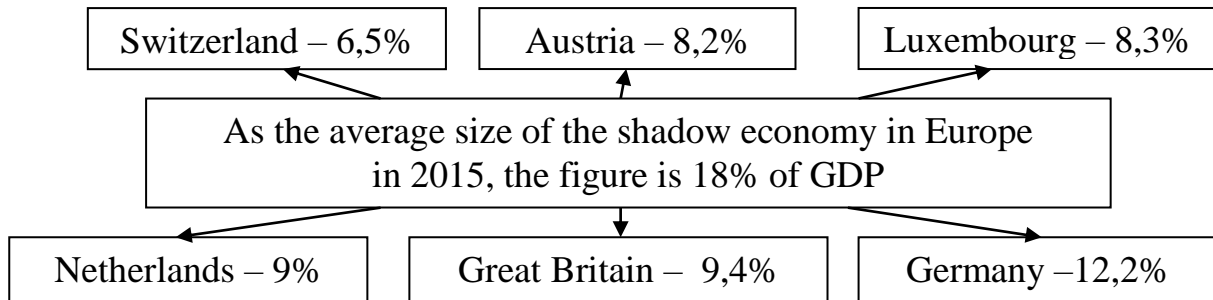


Fig. 5. As the average size of the shadow economy in Europe

But let's return to the Ukrainian experience of struggle money laundering. As it was noted, from 2014 the relevant legislation was updated and the Law «On Prevention and Counteraction of Legalization (Laundering) of the Proceeds from Crime, Terrorist Financing and the Financing of the Proliferation of Weapons of Mass Destruction» was adopted. The law is aimed at protecting the rights and legitimate interests of citizens, society and the state, ensuring national security by defining the legal mechanism for combating money laundering, terrorist financing and financing of the proliferation of weapons of mass destruction, as well as the creation of a national multi-source analytical database for providing law enforcement agencies of Ukraine and foreign countries with the opportunity to detect, verify and investigate crimes related to money laundering and other illegal financial transactions.

The financial monitoring of operations subject to it is conducted on two levels - internal (primary) and state (Fig. 6.).

The SCFM is the public authority to monitor financial transactions in Ukraine. The analysis of the report of the SCFM in general testifies to the activation of the activities of this institution in the implementation of the Law over the past two years.

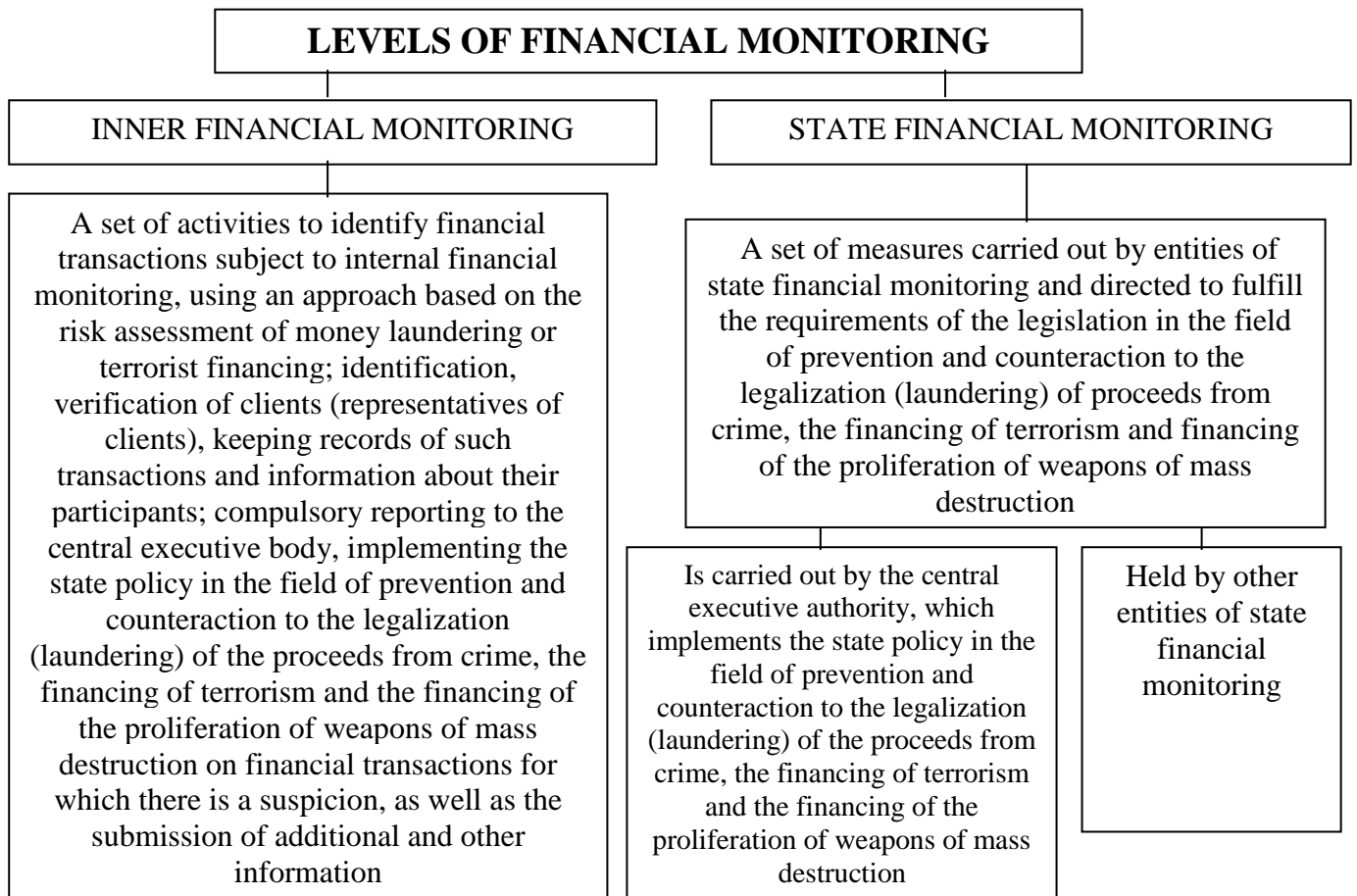


Fig. 6. Levels of financial monitoring

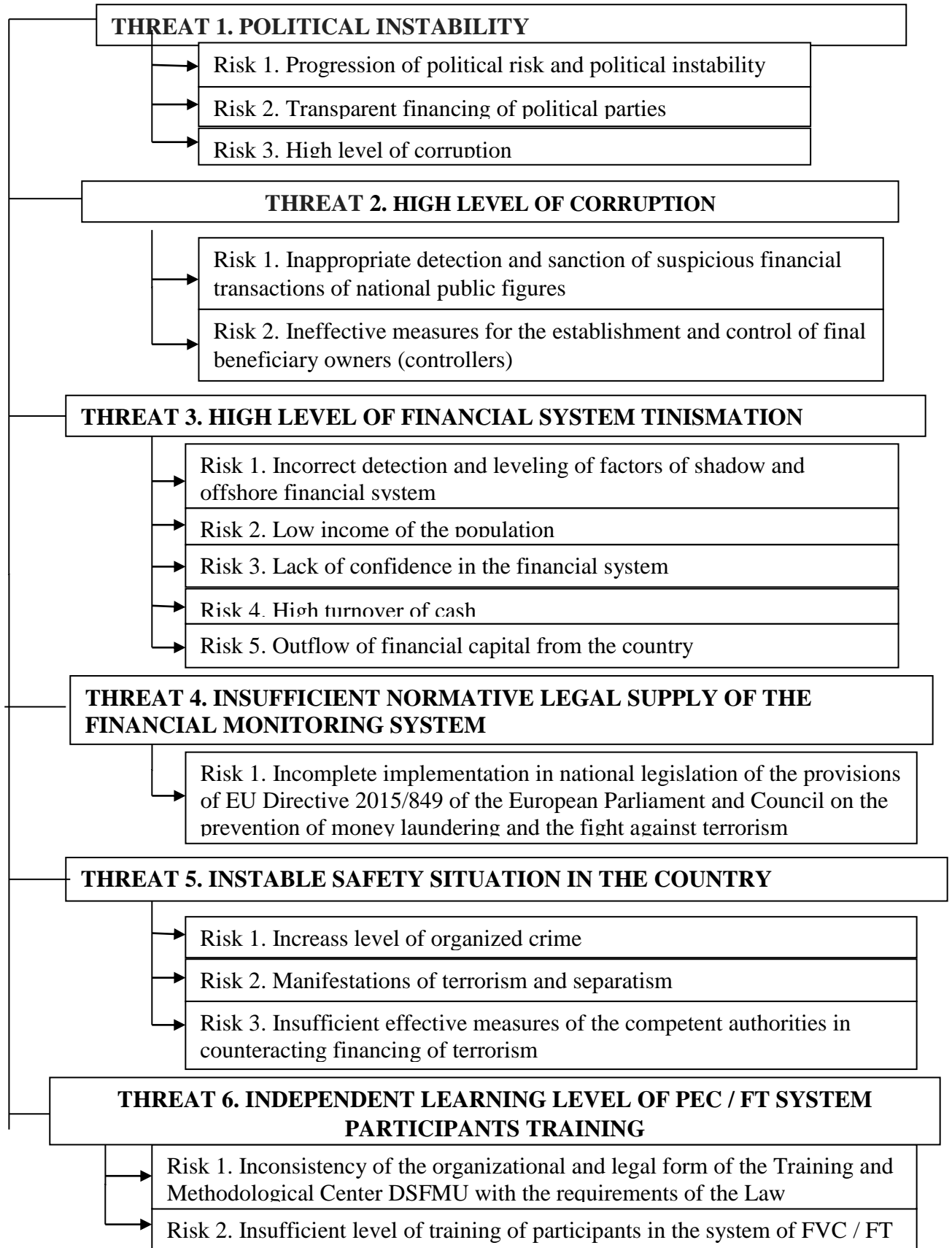
In particular, the facts of reporting on financial transactions subject to monitoring increased by 6.5 times over 5 years. The dynamics of accounting for financial transactions is also positive.

The most active subjects of primary financial monitoring are banking institutions, since the share of financial transactions they promonitor is 98% (6260727 of 6381728 of all financial transactions) [50].

In order to ensure efficiency, feedback and effectiveness of financial monitoring, a Unified Information System was created. SCFM in 2012 developed the program «Modernization of the information system in the field of prevention and counteraction to the legalization (laundering) of proceeds from crime, terrorist financing and financing of the proliferation of weapons of mass destruction».

The above Law provides for a national risk assessment. The national risk assessment is carried out systematically, but at least once every three years. A person authorized to carry out a national risk assessment is a specially authorized body. SCFM reports on the following identified threats and risks (Fig. 7.).





(FVC / FT - counteraction to money laundering and terrorist financing)

Fig. 7. Provides for a national risk assessment

Recall that the threat is a possible danger. Any circumstances or events occurring in the external environment that may be the cause of a breach of security policy and / or damage. Risk – the danger of any adverse outcome.

According to generalized indicators of political stability in Ukraine over 10 years did not reach even the level of 50%. According to the calculations, government crises in Ukraine in the last period had a negative impact on the economic index of GDP per capita at the level (– 0.029). The link between these indicators is very weak, as the indicator of the presence of government crises in Ukraine is not complex and only reflects some contradictory tendencies within the political system of Ukraine.

The second element of the assessment within the political and institutional component is to assess the level of corruption in Ukraine. According to the World Corruption Perceptions Index, in 2015, Ukraine ranked 130th in terms of corruption perceptions from 168 countries. Ukraine has succeeded in showing the positive dynamics of the index due to increased public condemnation of corrupt officials, the creation of anti-corruption bodies and the emergence of a corruption incriminating movement.

From the assessment of the level of spheres and institutions, it is clear that the prosecutors and courts are the most corrupt ones. The lack of trust of Ukrainians in financial institutions is another reason for the threat of a high level of shadowing of financial markets, along with a factor of instability of the national currency.

Another important component of medium-risk bank financial transactions (according to surveyed respondents) is international trade operations.

As a result of the additional risk analysis of international trade operations, it was discovered that the main types of offshore zones existing in the world today (which are by their nature a kind of free economic zones) include:

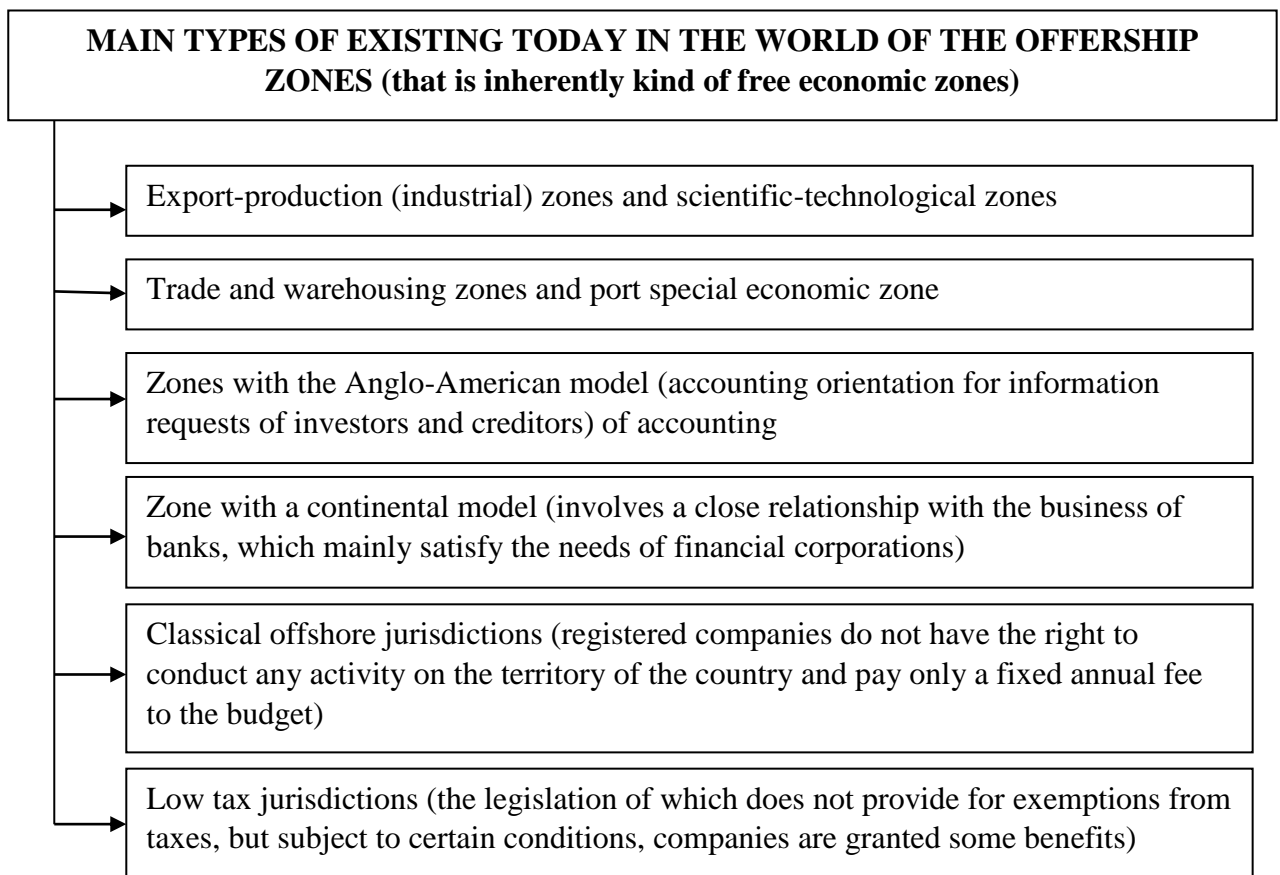


Fig. 8. Main types of existing today in the world of the offership zones

The analysis of the last two types of offshore jurisdictions should be given the highest attention, because the majority of share of foreign trade of Ukraine is due to them. And if the presence of individual financial centers in the chain from the supplier to the final consumer is vital, then our state can relentlessly refuse from the services of the last two types.

The urgency of the above-mentioned risk for Ukraine is confirmed not only by the calculations of Ukrainian specialists, but also by the data of international organizations.

Thus, there are many problems in Ukraine that hinder economic development and exacerbate the threats to economic security and, in general, the national security of the country. At the Economic Forum of Shadowing of the National Economy, which took place on November 6, 2017, the main ways of «shadowing» in Ukraine

were called – the transfer of profits to «tax havens» («offshore»), smuggling (manipulation of the customs value of goods, interrupted transit , commercial parcels, lack of control over the chain of sales of imported goods), VAT theft (illegal export refunds, false entrepreneurship, in particular, carousel schemes and distortions of the tax base (concealing volumes sales), informal businesses and individual economic activity without registration.

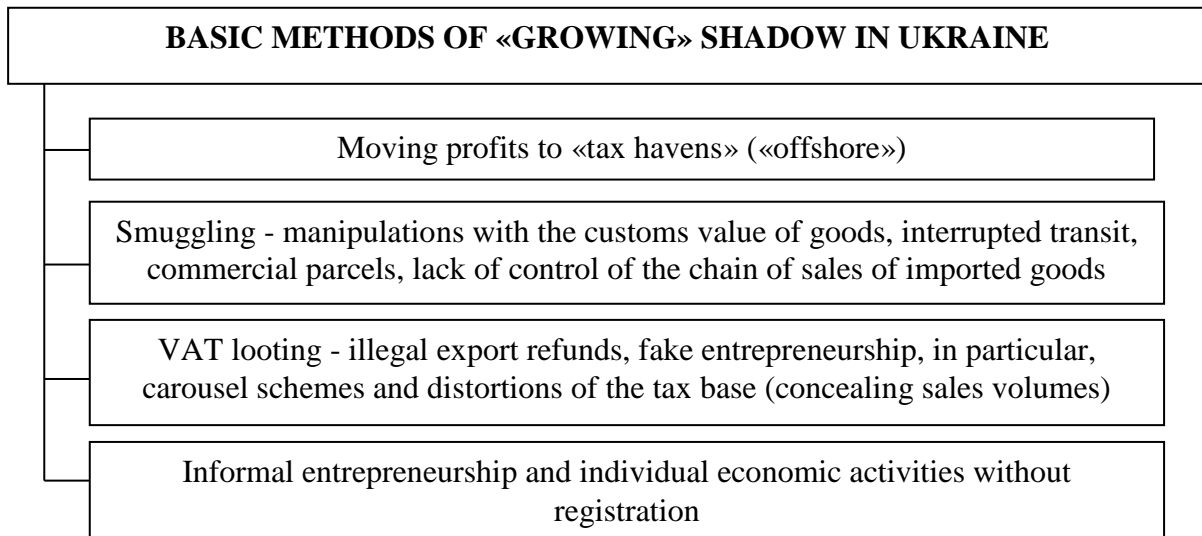


Fig. 9. Basic methods of «growing» shadow in Ukraine

<b>Experts' Results of the Level of Shadowing of the National Economy</b>	
the amount of offshore schemes	260–320 billion UAH per year
budget losses from offshore schemes	50–65 billion UAH per year
the size of the shadow in terms of violation of customs rules and smuggling	80–230 billion UAH per year
budget loss	25–70 billion UAH per year

Fig. 10. Experts' Results of the Level of Shadowing of the National Economy

The problems of Ukraine regarding money laundering and terrorist financing, as well as significant amounts of the shadow sector in the national economy, would have been more effective if, in implementing the provisions of the law, the executors took into account the following factors:

- lack of control by the heads of commercial banks over the implementation by the responsible persons of their functional responsibilities for conducting initial financial monitoring;
- the probability of appointing an irresponsible or corrupt specialist responsible for the initial financial monitoring;
- the need for increased control over the activities of banks, majority ownership of which are oligarchs or representatives of state authorities;
- the probability of the presence in the Ukrainian financial market of informal credit and settlement systems (such as Khavali) and virtual crypto-goods (such as bitcoins), which allow uncontrolled government to turn into huge cash flows in the shadow sector of the national economy, including for the financing of terrorist organizations.

I want to draw your attention to such non-traditional money-laundering instruments that, unfortunately, in this context, the world's monitoring services are not considered to be active enough.

The word «hawala» in the Arabic language is indicated by a bill or parcel. The feature of the hawala system is the fact that all financial transactions (moving from country to country money, jewelry or gold) are executed without any documentary evidence – work is based on the trust of the participants in the process. The main link of the hawala system is the system brokers – they are called «hvaladar». They organize transfers between countries. In this case, physically, money does not leave the boundaries of the state: the sender simply gives money to a broker in one country, receives from him a secret code (for example, numbers with one of the banknotes), which then the recipient in another country should call the second broker to get the equivalent of the initial amount in local currency. Subsequently, brokers are calculated with each other according to the clearing scheme – for the closing of the balance, gold, precious metals, or some services may be used. The exact number of hawala brokers working in the world can not be calculated – the estimates range from

5000 to tens of thousands. There are regional varieties of hawaii, for example, «Hundu» in India [54].

The diagram of the work of Hawaii is easier to illustrate on an example. Assume that a CA from Country A wants to translate (or pay some of its obligations) to a CB customer from the country B. Hualadar (a broker) of HA from country A gets money in currency A and provides him with a confirmation code transaction He then sends an email, fax, or telephone to HawalaDar from a second country (HB) and tells him the details of the transfer and the amount equivalent in local currency to the recipient (CB). In order to receive money, the payee must name the code of HawalaDar, which the first broker named the sender of the transfer.

Such a scheme is called «a simple return hawala» – in this case, the money is physically not transferred from the broker to the broker. Assuming he lives in the US, and the recipient in India, then the Indian Hagaladar will pay the recipient at his own expense. Subsequently, for broker billing in the United States, a payment will be made to the recipient in that country on behalf of the customer from India. Over time, the total net amount of transactions can be counterbalanced, but asymmetry of cash flows between countries does not usually allow this to be achieved. Therefore, ultimately, mutual settlements are conducted, for which even the transfers using the usual banking system can be used. The method described above is not the only kind of hawala.

There are also options for trilateral dealings with brokers.

Another way to make payments on the hawala system is to use trade agreements with overpriced or underpaid accounts. According to the Financial Action Task Force on Fighting Money Laundering (FATF), agreements of this type are common in Afghanistan, Iran, Pakistan and Somalia. In this configuration, brokers make payments from the cash surplus or cashless funds at the request of one or another organization, which, in turn, makes payments to private recipients in the country of destination of the transfer.

In addition to private individuals, hawaiian translations are used by entire countries – in 2008, the Financial Times published an analysis of how, with the help of this financial system, the country circumvented the sanctions imposed on its banks. According to journalists, Iran's central bank issued brokers a hawala license for money transfer operations, which ultimately appeared on accounts with banks in the United States, Europe and Asia [55].

The ease of use of the system, as well as its opacity for the authorities and a minimum of «paper red tape» make the hawala an attractive tool for money laundering or tax evasion. There are also suspicions about the use of hawala terrorist organizations.

Countering the «shadow banks» hawala is an extremely difficult task. Some economists even propose not to go beyond their prohibition, but to prevent the use of hawaii for criminal purposes.

It is necessary to separately focus attention on the problem of electronic money. After all, the appearance of cryptocurrency continues to promise to exert an increasing influence on financial markets. According to experts, bitcoins have not yet completed the phase of their growth, and in the future can bring significant benefits to buyers. As a result, the cryptic currency – a reliable financial instrument and an alternative to traditional currencies – will turn out to be another economic bubble that is comparable to the dotcom crisis, while it's hard to argue. Gaining popularity as a means of payment, bitcoins actively increase their rate to the dollar. The more transactions using bitcoin, the more their value. The increase in value attracts even more investors and speculators. And if we take into account the peculiarities of the block technology technology, the algorithm for creating new bitcoins (Mining), and the amount of emissions (the limit number of bitcoins is limited), the attractiveness for investors is only rising. The lack of ownership costs also adds to the popularity of bitcoin, increasing its attractiveness. Another growth factor is a two-fold reduction in the emissions of new bitcoins, with increasing interest from buyers. Bitcoin is now popular, including speculators. Given this factor, the growing trend may be extended.

To some extent it's a bubble, it can infiltrate for a long time. However, the more growth, the more risks bladder blending and correction down. The main risk for cryptography is the increased regulation by world central banks. However, while the world is developing an uncertain geopolitical situation, the popularity of the blockade is gaining momentum, investors are ready to buy cryptographic currency – growth will continue. The interest in crying is related to the prospects of the blockade technology in general. For example, in the Ethereum platform, you can prescribe the execution of payment terms.

Although the world's central banks still take a cautious attitude towards bitcoin. Many countries and central banks are exploring blockade – the main technology of bitcoin. At the same time, many banks have expressed their desire to create products based on blockade. There is no clear attitude of the Central Banks towards Bitcoin and other cybercurrencies. But the tendency of strengthening the struggle against converting crypto currency into money is seen conversely. Possible sanctions against online retailers who take crypto-denygues will be introduced in the future, and this will be a major obstacle to further popularizing them. I adhere to experts who believe that bitcoins are a bubble. It can continue to inflate for a long time, but it's essential, it's just a matter of time.

Financial market experts believe that bitcoins still can not function as a full-fledged money. The bitcoin has a very volatile rate, so nobody will agree to use currency for the calculation, the value of which can change by 15% per day. In order for bitcoins to be considered seriously as an alternative to the dollar and the euro, it is necessary to significantly reduce the range of its exchange rate fluctuations. The imperfect protection system for purses from scammers continues to be a problem. A clear confirmation of this is a scandal with the MtGox Exchange. Although methods for protecting electronic purses are becoming more reliable, the level at which wallet owners are protected against hacking has not yet been achieved.



Currently, Bitcoin is seen as a tool for venture capital and speculative operations. However, few consider this virtual financial instrument as another uncontrolled money laundering or terrorist financing tool.

After all, now Bitcoin is a complete and the main settlement currency on the market crippled. Other cryptic currencies are converted to Bitcoin or Litecoin, and then are converted to a dollar, euro or yuan. Schemes that allow international money transfers flourish, especially in Asia. On April 1, 2017, Japan recognized bitcoin as the official payment instrument. The authorities of South Korea and India also began to develop a basis for the legalization of bitcoin. The prospect of cryptocurrency remains uncertain, which creates both opportunities and creates for buyers and for world financial systems, super-high risks.

In the context of the foregoing, state monitoring structures should focus on bitcoins as a threat not only to the financial systems of individual states, but also to national and economic security, since activity on the market of cybercriminals can contribute to money laundering or financing of terrorist actions or the financing of the acquisition of weapons of mass destruction. After all, it is very difficult to control financial transactions in the market of virtual money.

#### **4. The influence of latent management on the escalation of economic and social shocks in Ukrainian society**

In the current state of global economic instability the issue of efficiently managing and securing the growth of the national economy and its real sector is of immediate interest. The crises waves negatively impact Ukraine's economic security, especially since its economy is integrating into the global economic processes, escalating economic and social shocks in the nation's social life. The main characteristics of the economic environment that Ukrainian businesses operate in are: international economic volatility, market stagnation, decrease of investment attractiveness of Ukrainian companies, critical need for modern technology, shortening of Ukrainian product life-cycle. All of the above is also accompanied by destructive latent management in all of the national economy sectors. In essence, the state of economy today challenges the resilience of national businesses in difficult operation conditions. This relates to management decisions on all levels, from development strategy to business project organization efficiency. The answer to the economic and political situation of today is implementing adequate management that could support a sufficient level of economic security and to minimize the effect of social and economic shocks on the ukrainian society.

Those conditions demand to develop an efficient mechanism of increasing economic security in national businesses that will be able to withstand external and internal threats, as well as decreasing the effect of shocks from Ukraine's convergence with the EU.

The phenomenon of latent management and the latent factor model is covered in works by Mitina O.V., Korotkova E. M., Savchenko A. V. The economic convergence of countries in the EU is researched by Z. Darvas, E. Zervoyanni, B. Makkoviak, M. Stoker, G. Fagost and others. At the same time the issue of latent management related to Ukraine's convergence with the economies of more developed EU countries requires deeper research. Those problems lead to an escalation of

economic shock and have a negative influence on the state of economic security of the country and its businesses.

The economic security level can not be assessed by a particular statistic figure, since it includes at the very least 3 key components:

- 1) the current level of economic security (the level of resource sufficiency for production, investment and financial operation);
- 2) the efficiency of operation;
- 3) the potential for further growth.

The basis of the economic security mechanism is a systematic approach that combines tools, methods, levers and data that is created according to principles which exist as objective economic laws, and are implemented using an efficient management system. Monitoring the economic security level and diagnostics of the management system to detect any latent factors that have a positive or negative influence on the level of national economic security as a whole, are especially important in the management system.

Any latent factors that influence national businesses and their economic security should be accounted for in the process of monitoring and performing diagnostics.

So what is actually a hidden, or more commonly, latent factor?

Factors that have an influence on the object of research that the subject can not detect, are called latent. Latent factors have an effect on the behaviour of the object, but since the subject isn't aware of that, the object's performance is mistakenly explained by the impact of known or apparent factors. Detecting latent factors is a gruelling, but necessary challenge, because otherwise it's impossible to correctly reproduce the cause-and-effect system and make correct management decisions or form reasonable conclusions, since latent factors introduce significant uncertainty in managing economic processes on a micro or macro level.

Let's examine the influence of latent factors on macroeconomic processes. . For example, structural deformities like the shadow economy, uncontrolled capital

outflow, laundering illegal capital or asset grabbing (CIS issue otherwise known as reiderstvo) have an extremely high negative impact on the state of economic security. Those deformities exist because latent factors are difficult to detect, and even harder to manage.

Latent factors are created as a by-product of apparent factors in an inefficient management system, especially when the demands of the system are in conflict with the interests of a managed object. For instance, the apparent factor is a requirement to pay taxes, and the latent factor would be a desire to evade taxes if possible.

Since latent factors can't be observed directly, there have been statistical and analytic methods developed to detect latent factors and their creation mechanism [56].

What makes a preemptive assessment of a management system according to latent factor criteria unique? Such an assessment allows to clearly determine whether a national economy management system has any processes that are not accounted for in the shortest amount of time possible. In case those processes exist, the assessment method allows one to make necessary changes to restructure the management system. Because Ukraine's national economy management system requires more attention, as well as more knowledge on the issue of latent factors, the country's economic security threats become more serious and support destructive forms of latent management.

In scientific works, social and economic practice latent management is often confused with or is considered equal to manipulation. V. P. Sheynov [57], for example, considers hidden management a manipulation. However, those concepts are different at their core, and as such, should be researched as part of different sciences: manipulation becomes part of sociology and psychology and latent management should be included into political science and economic system management theory.

A number of scientists have used the term latent to describe hidden influences in organization management and thus have started scientific debate on this complex management theory issue [58].

Latent management is a hidden goal-oriented influence on a process, as a result of which the subject of the process consciously accepts and executes seemingly independent decisions, which were actually developed by an actor of latent management. Meanwhile, the object of latent management, understanding the situation, receives externally adjusted data that causes it to take pre-determined actions, regardless of his own intellectual effort.

The person or group under latent influence that is responsible for the decision made in circumstances of incorrect data, biased perspectives or lacking knowledge is therefore rationally and intellectually supporting the actor of latent management that changes the economic traits of that person's or group's operation.

In that context, a distribution of latent management into groups of constructive and destructive types is the most important to develop social and economic systems and for the state of economic security.

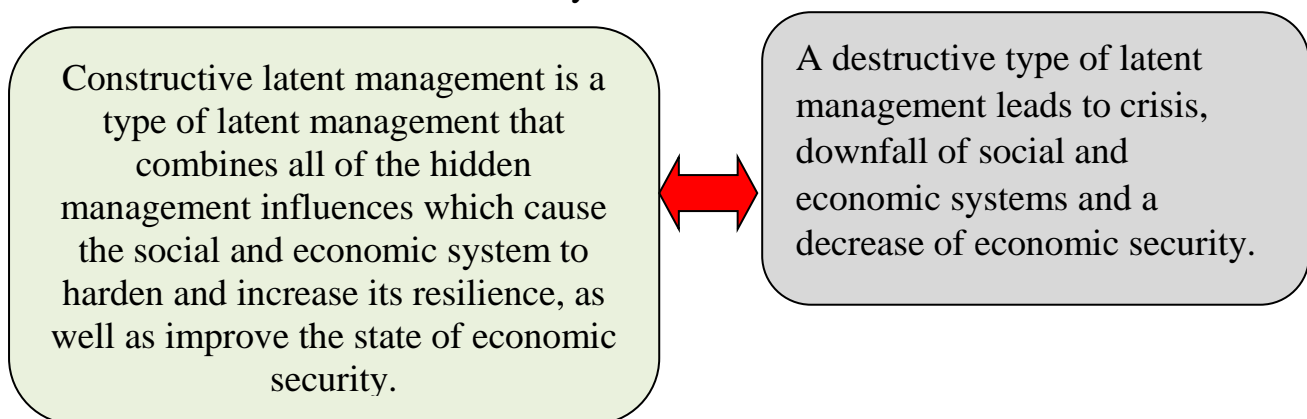


Fig. 11. Constructive and destructive latent management

For example, destructive latent management is a systemic factor of the shadow economy (Fig. 12) as well as other negative aspects of the economy.

There are a number of ways to determine the functions of management. Functions are divided into basic, which apply to all types of management, and specific, which determine special traits of the described type of management. The specific functions of latent management that explain its deceptive, hidden nature are analyzed below in table 11.

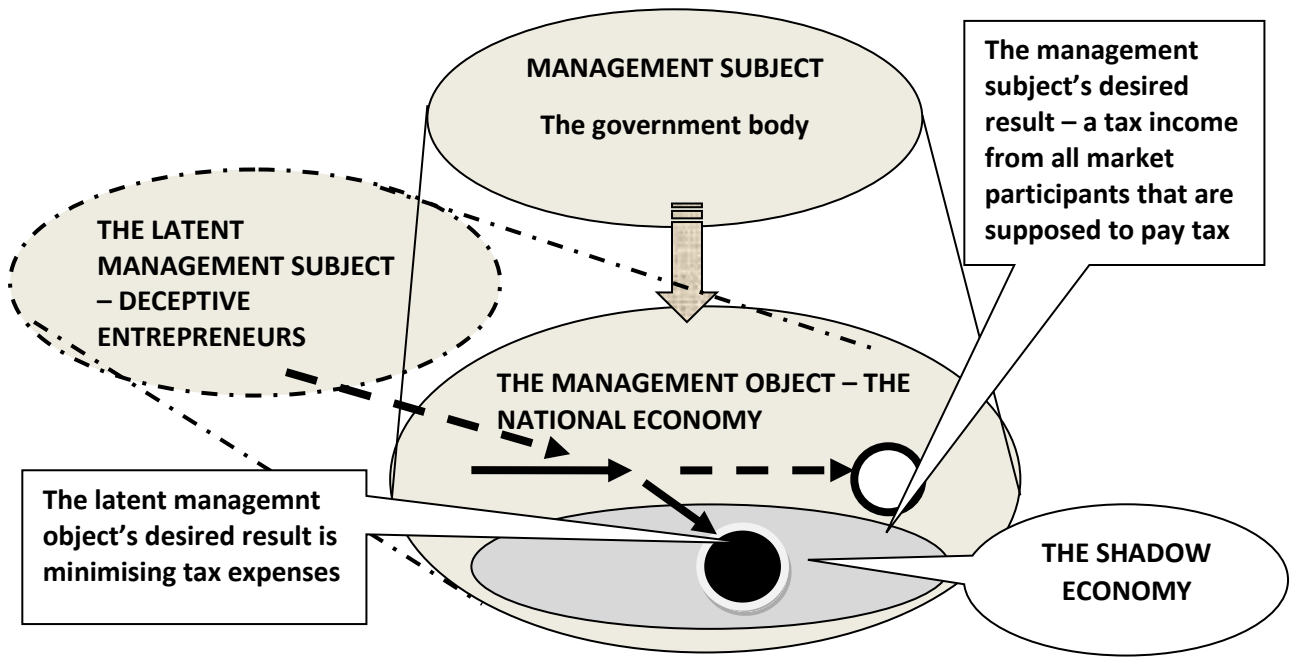


Fig. 12. Latent management as a systemic factor of Shadow economy

The latent management mechanism doesn't only include functions, but also the use of certain methods.

Table 12 has O. M. Savchenko's take on the information and situational methods of latent management [59].

Table 11

The specific functions of latent management

The specific functions of latent management	The purpose of the function
Collecting and analysing data	To detect stereotypes, patterns and shortcuts that is used in the decision-making process of a latent management object.
Forecasting	To detect the most likely and probable changes in the management object's operation through rational processing available data
Scripting a scenario	To project latent influence, as in to determine its aim, methods and tools as well as to create a legend of influence, where the aims, tools and methods of masking influence are determined.
Modelling	To play out the script, and to increase its probability through experimenting with situational material, that is comparable or similar to the object of latent management
Directing the influence	To organize latent influence and prepare prompts to regulate any complications that come up in the process of latent management

Table 12

## Basic methods of latent management

Latent management method	The purpose of the method
Faking data used by the object of latent management	To debunk knee-jerk assumptions and detect logical biases by comparing the ideas with events and facts that are observed
Providing the latent management object wrong data	To deceive by providing the object inaccurate data so the conclusions that are made are skewed as well
Applying hyperbole to data	To increase the importance of a given assumption by directing attention to their viability as a whole or to certain parts of such assumptions.
Adjusting the data semantics	To skew the meaning of words, definitions or terms to change the context or assumptions about the value of received information.
Using hoax	To conciously deceive somebody through events that have fallacious meaning
Using acts of provocation	Taunting, stimulating or pushing particular people, groups or organizations towards decisions that are made to look attractive, but can have unpredictable consequences
Counterfeiting	A materialized deception using physical but counterfeit objects or facts

The basic latent management principles that are used in social and economic competition and cooperation strategies to give a latent management subject competitive advantage suggests taking the following actions:

- 1) masking or hiding the real latent management goals;
- 2) determining the latent management object;
- 3) doing a deep research of the latent management object operation;
- 4) doing a comprehensive information check;
- 5) detecting any possibility of change in the latent management object;
- 6) connecting the latent management project with its legend that masks the hidden management influences;
- 7) proofreading, checking for error and confirming the legend, that masks management influences;
- 8) making sure that the data and facts used in the latent management process are persuasive;
- 9) checking the latent management influence for methodological influence;

As destructive latent management today has become the norm in all levels of Ukrainian business practice, the situation poses the question: how to avoid its negative consequences? Since the Ukrainian economy is in a state of deep crisis, and the governmental attempts to join the economy of the EU have caused economic and social shock in Ukrainian society.

Note: other countries of the post-soviet block have also experienced economic shock, which is only natural when converging into different, more developed economies but those countries have attempted to soften the impact with adequate social and economic policy.

For example, those countries have experienced the following financial and energy resources shocks:

- *financial shock in the price formation sector* – the rate of inflation in developing European Union countries in 2008-2009 was on average 10%, whereas the Eurozone average was approximately 2%;

- *exchange rate formation shock* – Another type of financial shock, experienced by developing economies in convergence with the EU. The shock is caused by the fact that new members have to fulfill the Maastricht criteria of a stable exchange rate. Financial shock of this type have had significant impact on the state of the foreign trade and current account balance, as well as budget balance of the new EU members;

- *a growing dependence on foreign funding and internal loan intensifier*. For example, the government debt of the Czech Republic has increased from 18,5% of GDP in 2000 to 29,4% in 2008, the debt of Poland has increased from 36,8% to 41,6% respectively, whereas Hungarian government debt has increased from 54,2% to 73,8%, (pic. 2), thus exceeding the Maastricht criteria of 60% GDP ratio limit;

- *energy resource shocks*. Convergence shock energy resource price changes also coincided with shock, connected to the tendency of primary energy resource value increase on global markets for the last few quarters, up until IV quarter of 2008. This shock synergy resulted in a noticeable (in some cases, an N-fold) increase of



electricity and natural gas prices for the major customer groups of the aforementioned countries. In particular, electricity prices in Hungary and the Czech Republic have increased 2,2 times in the first half of 2008 in comparison to 2000. The prices for industry use in the same timeframe have increased 2,4 times in the Czech Republic, 2,2 times in Hungary, 1,5 times in Slovenia. For some of the EU-10 countries the change of price has been especially significant in the post-convergence period. For example, the industry electricity price has increased from the 1<sup>st</sup> half of 2005 to 2008 1,6 times in Poland, 1,7 times in Slovakia and Latvia, 1,6 times in Lithuania. The newly integrated EU countries have experienced stronger shock due to the N-fold natural gas price increase of the last few years. The public price for natural gas in Hungary has increased 3,4 times in 2008 if compared to 2000, industrial usage price increase equals a 3,5-fold increase, whereas in the Czech Republic – 2,8 and almost 3 times, and Slovenia 2,2 and 1,9 times increase respectively.

Then again, the governments of those countries gave out loans into the real sector of the economy intensively, helped the economy restore on grounds of resource efficiency and innovation to soften the shock impact.

However, the current state of affairs in Ukraine is much worse. In its attempts to support the economic convergence of Ukraine with the EU, the government has used either uncommon regulation measures or ceases government regulation in socially important sectors like price and utility rates. Furthermore, inefficient government management becomes destructively latent, which manifests as the shadow economy and corruption. In effect, this doesn't reduce economic and social shocks in Ukrainian society, but only increases it.

In situations like this, when social and economic systems are under destructive latent influence, counteracting their influence becomes especially important, thus implementing management that prioritizes preventing and counteracting destructive latent management as a cause of crises. This type of management is called *counterlatent, which is a kind of anti-crises management. Its main functions are forecasting, preventing, counteracting and removing the consequences of destructive*

*latent management as a source of crises in social and economic systems as well as a source of threats to economic security of a country and other actors in the economy* [60]. Management weaknesses can be discovered using the management process interference model to analyse real scenarios, and therefore predict possible latent influence and prevent it. There are two main stages of counterlatent management (table 13).

Table 13

Counterlatent management stages

Stage name		Stage essence
1	Choosing the influence threat valuation method	Developing the procedure and operation then picking the staff to create, implement and manage counterlatent measures
2	Identifying possible actors of destructive latent management	Identifying potential and diagnosing factors developed over time that reflect the negative activity of possible destructive management actors

To understand the essence of latent management it is necessary to be able to imagine the process of its successful implementation, to comprehend the cause and effect relationships of the whole system of interaction that lead to latent results in the company economic security management system. This can be done only through understanding the feedback mechanism of apparent and latent processes that result in latent influence.

In real management practice, there are countless interactions between the managers and executives. This is especially true when observing the anti-crisis management mechanism in action, which always has two separate directions of influence. On one hand, it is the manager influencing an executive, on the other – the executive influences the manager. More often than not, the latter influence has either latent or unclear reasons. The executive feedback impact onto the manager should always be accounted for in an economic security management system, should fit the operation goals of the enterprise as this relationship reflects a latent influence on the system. Thus we can conclude that latent management as part of the management process preserves its essence while taking on latent traits and masking its influence.

When analysing the latent management mechanism it's easy to notice that the management object is influenced not just by the goal-oriented actions of the official management subject, but also by a latent management subject. However, the official management subject has both apparent and latent methods of influence as well. That is why it is a necessity to account for the actual impact that executives may have, since they are always more or less performing independent management and the more complex an executive process is, the more important independent management becomes.

The anti-crisis management experience shows that the process of management and independent management are very closely related to each other. In any kind of business executives will have their own ideas about their goals, situation, problems and their decision-making process is basically intertwined with the process of management itself.

A management decision is perceived, made and implemented by the executive according to the actual circumstances of the situation in which he or she is operating. The result of a management decision thus depends on the executive's ability to fit the specifics of the situation into the action plan.

It is obvious that circumstances don't play a big part in a normal, day-to-day situation, when management decisions are specific and put clear boundaries on the executive. However, when a business faces great uncertainty and risk and its economic security threats become more likely, the processes of independent management and management and making management decisions more detailed becomes vital, since the survival and success of a business in such circumstances depend largely on the competence and qualification of the executive in charge.

The manager performing his duties has to define management goals, research the situation, form his own opinion, based on which he can determine the problem and then make a management decision. In the process of communication, the decision is then relayed to the executives. The executives understand and accept the decision as their goal and thus self-manage their work process to achieve the result required by

the management subject according to the scope of both their comprehension of the management decision and the situation at hand.

The latent management subject defined as the latent organizer, forms his own latent goals, researches and assesses the situation from his own point of view, determines his problems and then, in turn, makes his own latent decision.

The latent organizer or the latent management subject influences the impact that the executives have on the management object by giving them biased information or changing the decision-making environment. The processes of management, individual management and latent management blend together, influencing one another, thus forming a big picture of management that can be defined as «Management process interference». That said, the latent influence changes the executive's self-organization process. For example, by distorting the information an executive receives, latent influence changes the goals that are being formed to the point they don't fit the management decision any longer [61].

Furthermore, latent influence could change the executive's perception of the circumstances in question by supplying one with information sourced from the latent management subject, or by even changing the circumstances themselves under the influence of latent factors. This changes the process of problem determination and the executive's decision to achieve the result as demanded by the management subject. The fact that answer accuracy depends by as many as half on the accuracy of the question is well-known. Similarly, decision accuracy has the same dependence on an accurately defined problem. Thus, latent influence that affects the assessment of a given situation by the executives will affect all other parts of the self-organization process.

At the same time, data sourced by the latent management subject could also impact further stages of the independent management process and change the essence of the set goals and decisions. So it is important to note that any changes of the kind lead to the same thing, which is a distorted executive decision-making process. As a result, the direction of their effort will modify, and instead of achieving the result that

is desired by the apparent management subject, the latent management goal will be fulfilled.

From his own perspective, the latent organizer should be clear and unattached in his perception of the situation in order to influence the executives in the desired manner.

The main condition of latent management success is the latent organizer having sufficient comprehension of the logic behind the executive's decision refinement process since all of latent management depends on the ability to distort that logic and use the distortion to influence management as a whole. As such, the process of conscious constructive latent management oriented towards achieving positive change must be significantly more complex and deeper than apparent management. That is the only case, when constructive latent management can achieve its goals.

Thus, the latent management subject is in state of antagonistic rivalry with the apparent management subject and the success of either side comes from using more and more complex logic and a more accurate core analysis of the conditions in which executives operate.

It is important to understand that management processes in Ukrainian businesses and their economic security systems are graded by levels of intellectual and organizational complexity, and as a result, by executive hierarchy levels. Since the latent and apparent management subjects are antagonistic rivals, the one that uses a more complex form of management organization process that depends on management competence and from a desire to achieve results.

## **THE CONCLUSIONS**

### **Formation of a new paradigm for the development of Ukrainian society**

The research has proven that the national economy of Ukraine is at a deep pace. Is there a way out of such a long crisis? Can the Ukrainian economy operate as a mechanism for free competition and can it be possible to balance the supply and demand between production and consumption? Is economic growth possible in a situation prevailing in Ukrainian society?

After all, with the main negative factors that led to such a poor state of the economy of Ukraine, it is extremely difficult to fight, although there are options to resist it.

The above facts and analysis allowed the general problems of the Ukrainian economy to distinguish the main ones that lie in the following:

- threats of debt security;
- lack of investment in the real sector of the economy;
- non-strategic policy of the NBU;
- dishonest actions of oligarchic formations;
- the merger of big business and politics and, as a result, lobby the interests of a «handful» of oligarchs over national interests, which became possible as a result of «legitimate» actions by government and business groups;
- stratification of society and the destruction of the middle class;
- lack of state social policy.

In a national economy, every entity, whether it be an economy, an enterprise, a region or a state, including in an economic space, pursues its own interests.

Harmonization of the same interests is directed by objective economic laws: each individual, having his own interest, simultaneously contributes to the achievement of maximum benefits for all.

The national economy strives for stability, efficiency, equity through provision:

- stable growth of national production volume;

- high and stable level of employment;
- a stable price level;
- maintenance of equilibrium external balance.

These goals are achieved through the application of certain macroeconomic regulation tools. But these tools will not work efficiently without realizing the architecture of a successful national economy.

Conceptually, I will present the author's idea, the realization of which will enable to build an economic model of the national economy of Ukraine, in which the interests of most citizens would be satisfied.

Define the components of a successful economy:

- 1) information and informatization;
- 2) intellectual capital;
- 3) resource availability.

Everything listed in Ukraine is in sufficient quantity. In many successful countries, there is not one tenth of that level of intelligence and resources such as in Ukraine. In such a case, what prevents the national economy of Ukraine from escaping into a deep crisis, and is there a way out of the «peak»?

Consider these three main components, using philosophical concepts and the principle of Pareto.

Let's start with the information. It is an important driver for success or failure, level of intelligence or degradation. It all depends on the content of the information and the adequacy of its perception. The following principle applies here: the more information a person has, the more he is aware of the need for large information flows.

Intellect and its accumulation in the form of capital. Socrates said: «I know I do not know anything, but others know even less». It turns out that the principle is working: the deeper the knowledge of a person, the more he is aware of his or she ignorance.

Resource. The more resources a person has, the more he feels the needs they have. Access to wealth opens up new opportunities, and the growth of opportunities leads to immense desires. To satisfy these desires is possible, having found new sources of access to wealth, etc.

In these three laws, the principle of Pareto works. In essence, the Pareto principle reflects the uneven distribution of causes and effects in nature. Compliance with the 80/20 principle is very common in a wide range of areas. For example, the fact that 20% of people have 80% of the capital, or 80% of users' visit 20% of sites, 20% of buyers or customers (permanent) bring 80% of their profits. But it should be borne in mind that in these statements, the fundamental values are not given numerical values, but the fact of their significant difference, the imbalance.

Let's analyze how the Pareto principle works in the three previously considered drivers. Consequently, information is adequately perceived by 20% of citizens. They are able, using information, to distinguish reality from false information, to adequately use information for the benefit of themselves and society. Unfortunately, 80% of citizens can adequately receive no more than 20% of the information. Hence – uncertainty, the need to follow the leader (and, these leaders change depending on the power and intensity of the information provided), the inability to use the information with maximum benefit, and so on.

The intellectual level is also unbalanced, and accordingly – and a thirst for new knowledge. Indeed, as practice shows, 20% of people believe that gaining knowledge should be lifelong, living according to the rule: «learning and discovering something new is so interesting, do not be ashamed that you do not know anything, because it's almost impossible to know everything».

At the same time, 80% of people believe that they all know, and living on the principle of «not teaching a scientist», extolling themselves above others, show complete ignorance.

And, of course, the fact that 20% of citizens have 80% of the resources and the rest 80% – 20% (for the Ukrainian society, such an imbalance is 90:10) is well



known. It should be borne in mind that the Pareto principle does not mean a strict ratio of 80:20. The imbalance may have a deviation of + (–) 5-10%.

These patterns have created two major problems in Ukraine, which are almost impossible to solve:

- 1) a politicized oligarchy;
- 2) passive behavior of participants in economic relations.

It should be noted that all participants in the economic relations are understood to mean all citizens - from households, private entrepreneurs, middle-class businesses to large businesses and the state. These problems create favorable conditions for destructive latent management, the consequences of which are money laundering, shadow economy, corruption, monopoly of oligarchs, and others. I called these two big problems the «disease of society». Indeed, the disparities presented by Pareto are the causes of mass diseases of humankind, which have been studied little, and therefore scientists are not yet classified, and therefore – the diagnosis is not presented in the scale of medical diseases.

Internet addiction as a new disease – the problem of Internet dependency is very acute in the whole world. This illness originated from inability to use information resources, but to a greater extent – due to the weak level of intelligence.

Another illness – I called her – a pocket of a wallet. This is a disease whose symptoms are the unbridled desire of the oligarchs to profit from various, all accessible and inaccessible means. As a rule, this is expressed in the accumulation of capital without borders and without public principles and norms.

The question arises: can these «cancerous tumors» be overcome in the body of the national economy of Ukraine, which are called: «passive behavior of participants in economic relations through ignorance» and «politicized oligarchy»?

The answer is simple, and they say a lot about it, but few do. Famous ancient folk wisdom is known: everyone wants to change the world, but nobody wants to start with himself!

Yes, we can take as a basis the positive experience of successful economies and start reforms on their example, we can adopt the Law «On the justification of property rights» or the Chinese experience of combating corruption and so on. You can declare beautifully and much. But nothing will change, as long as each member of the Ukrainian society (from top to bottom) does not realize that all changes need to start from themselves. Only then will it be desirable for those who have such an opportunity to make genuine economic reforms that would make Ukraine a successful, prosperous country, and its citizens – happy and prosperous. In other words, it is necessary to change the national paradigm of economic and social coexistence on the basis of intellectualization and moral well-being.

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