

## Development of integration formation determines the integration principle of convergence

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**Abstract:** This article describes the development of education and considered integration defines the principle of integration of convergence.

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### 1. Introduction

As it is necessary to be based on the principle of convergence or convergence while creating of a common economic space, we have clarified the definition of economic input in the ongoing research concepts [1, 2, 3].

Convergence - (from Lat. konvergenz - convergence) usage of various indicators, criteria for assessing of similarity of estimated object from a position of comparative analysis of both individual states and within the state of individual industries. As the object of evaluation can be the economy, industry, transport, law, etc.

In the practice of economic integration formation, as the document of fundamental importance can be considered adopted in May 1992 the Treaty of the European Union in the Dutch city of Maastricht. Criteria of economic convergence are defined in it [4, 5].

### 2. Material and Methods

As the economic convergence criteria for the EU Member States by the Treaty the following criteria are enshrined: level of inflation, public finances, level of government debt, and interest rate on long-term loans (Table 1).

Exploring the issues of economic convergence of the EU countries, it is possible to note the various indicators and methods of evaluation of the economic situation of the country [6].

Table 1 – Implementation of convergence criteria by the EU countries

States	Inflation, %	Interest rate on long-term loans	Deficit of state budget, % to GNP	Foreign debt of country, % to GNP <sup>2</sup>
Austria	2,3	3,99	-1,1	64,3
Belgium	2,7	3,98	0,4	94,9
Germany	2,2	3,89	-3,8	68,6
Greece	3,3	4,11	-4,6	107,9
Ireland	2,5	3,92	0,1	29,5
Spain	3,6	3,97	0,4	44,2
Italy	2,1	4,13	-2,4	108,6
Luxembourg	4,1	4,00	0,8	6,8
Netherlands	1,5	3,96	-3,2	54,0
Portugal	2,4	3,99	-2,8	65,9
Finland	0,6	4,01	2,3	42,8
France	2,3	3,98	-4,1	66,5
EU -12	2,3	4,05	-2,16	71,8
United Kingdom	1,2	4,81	-3,3	43,1
Denmark	1,6	4,23	0,3	36,0
Sweden	1,4	4,25	0,3	50,0
Hungary	6,4	8,23	-6,2	57,2
Cyprus	2,0	6,58	-6,4	70,4
Latvia	7,2	4,63	-1,5	12,8
Lithuania	3,1	4,38	-1,9	20,7
Malta	2,7	4,71	-9,6	77,2
Poland	4,6	6,80	-3,9	46,3
Slovenia	3,4	4,47	-2,0	29,3
Slovakia	6,3	5,08	-3,7	36,7
Czech Republic	3,1	4,81	-12,6	36,2
Estonia	4,0	4,15	3,1	5,1
EU-25	2,95	4,60	-3,18	64,13

In conducted analysis of the states - members of the EU, the author found that only validated assessment convergence indicators are insufficient for long-term planning of the state development.

As it is known, inflation - is determined as to Maastricht Treaty through the lowest level of inflation of the three states, plus 1.5%. Thus, the analysis showed that one of the problems in calculation of the inflation rate for the EU member states is the fact that the level of taxes, including indirect in each of the countries of the Union is varied. This is, of course, affects the rate calculation. If the excise tax in Germany is at 17 %, Italy - 18%, of course, it creates not only a problem in arithmetic calculation of inflation, but the main thing distorts of the figures for long-term planning.

Further, in our opinion, in calculation of the inflation rate, it must also be taken into account - real gross national product of the state (GNP).

The rate of inflation affects all states and protracted unemployment, which, unfortunately, tends to increase.

In assessing the budget deficit EUROSTAT estimates the components of the state budget revenues and expenditures, which, in our opinion, is not enough. It is about long-term planning of the members of a common integrated space, so it is necessary to select demographic indicators in the country. Thus, the main source of budget revenues is taxes. If there is a factor of "aging" of population, of course, that income to revenue side of the budget will be reduced. Based on the evidence outlined above, we consider it necessary to include as a criterion of economic convergence for states to enter into various forms of integration, the rate of the demographic situation in the country [7].

The analysis of the following indicators of convergence established by the UCB - **External public debt**, has shown that there are seen two dangers: the possibility of bankruptcy of nation and danger of shifting the debt burden on future generations. Regarding the first sign of danger it can be noted: no one can deny the government to fulfill its commitment to service debt.

### 3. Results

Analysis conducted by the author showed that the creation of criteria for economic convergence of the EU member states can be divided into 3 groups to meet the requirements of fiscal policy [4]:

1. Fulfilling of the requirements of the debt - external debt to 60% of GDP;
2. Debt to 60-80 % of GDP;
3. Debt above 100 % of GDP.

So, represented groups in the further years in different ways will meet the requirements of the Contract. The first group will reduce the figure, the second and third will also be reduced, but the execution time of the requirements of the Treaty will be different. So, to assess compliance with the requirements of the level of debt, and a more developed methodology for assessing the convergence of the world, unite into a single economic and monetary space to be considered: the currency in which the debt must be paid (domestic or foreign currency), the term of payment of the following currencies, consider the dynamics of exchange courses, consider the age structure of the population, the state budget.

Let us consider the latter figure for the convergence of the EU Member States, controlled by the UCB - is the interest rate on long-term loans. The complexity of the evaluation of the convergence criteria is that long-term interest rate for the time a loan is different in the EU. In some countries (Germany, France, Belgium) the long term is understood for more than 5 years , while in others (UK, Italy, Spain) – it is considered to be the long-term rate for the period of more than 1 year, i.e., There is no separate allocation of medium-term interest rates. Thus, it is necessary to note the lack of a unified position on the concept of long-term interest rates for countries which have common economic and monetary space.

So, to assess the economic convergence of member countries of the integration of education should pay attention to solutions in the following areas:

1. Unemployment.
2. Demographic development, as future government spending will be severely burdensome to the citizens.
3. High public debt (to find ways to reduce the debt of the EU Member States).

In view of the above mentioned, we propose to consider the expanded methodology to assess the convergence criteria of joining the common economic and monetary space (Fig. 1).

To estimate the inflation rate the following shall be considered:

The harmonized index of consumer prices, purchase prices, the amount of real GDP, level of unemployment, average wages in the country, the productivity of labor.

Although the unemployment rate, average wage and labor productivity will contribute to assessment not only inflation, but also the level of the budget deficit and, as a consequence, its external debt.

To estimate the total external debt examines its structure:

Distribution of debt by currency, by type of loan, the average term of the loan.

State budget deficit to as criteria Convergence use: general state revenues, total government spending, demographic situation in the country.

When planning a long-term economic policy, it is necessary to adjust the demographic situation in the country. Here we will be able to predict the revenues and expenditures, as well as plan for the payment of interest and the amount of external debt.

Plan long-term interest rates on loans to considering the influence of currency fluctuations.

One of the most difficult questions of formation and development of integration creation is the distribution of powers between the national state and the creation of centralized management. As mentioned above, the main principle, forming a single economic integration formation is the collective decision-making, but how much power left to the national level, and what is necessary to make the scope of the national interest.

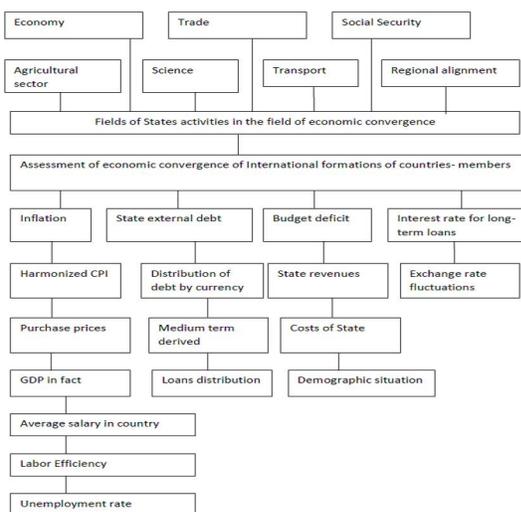


Figure 1 – Model of economic convergence level assessment

Many foreign authors have worked to establish integration structures, but the principles of distribution of powers of a single integrated entity not. Therefore, in our opinion, it is necessary to examine the concept of distribution of powers.

The degree of centralization may be determined by the following factors:

1) Scope of management. The larger scale of the control, the more difficult to implement centralized management. Congestion occurs in the central parts of the information management system,

the lack of work on specific parts of a management information system, the lack of work on specific circumstances and characteristics of the problem;

2) Harmony or disharmony of distribution of staff by level of professionalism in the management hierarchy;

3) Use of information processing hardware, presence or absence of an integrated information management system;

4) System of motivation;

5) Combination of strategy and tactics of management;

6) Cultural characteristics of the country and management style of their work.

These factors are interrelated and are defined as the need to increase the centralization and need decentralization.

Creating integration structures closely related to territorial issues, governments must adhere to the principles of decentralization, as large space make it impossible to ensure the timely control and decision- making should be carried out in the field.

To assess the complexity of managing of the integration formations, it is need to draw up a classification parameters, in our opinion, they may be the number of states of the integration formation, population, level of economic convergence. In turn, the level of economic convergence will depend on the type of integration formation. The level of convergence can be evaluated on the basis of a three-point system: low - 0 - 30% medium - 30-70 %, and a high - more than 70% reduce the data in Table 2.

Table 2 – Dependence of the integration formation type on the level of convergence

Integration type	Convergence level	Convergence level in %
Free Trade Zone	low	0-30
Customs Union	low	0-30
Common market	low	0-30
Economic Union	average	30-70
Currency Union	high	over 70
Total economic integration	high	over 70

#### 4. Discussions

Thus, the level of convergence is directly related to the type of integration formation, where the level of economic and legal convergence can be established based on the number of agreed issues, and is set as a percentage.

We can assume that a high degree of centralization of management, based on the concept of integration processes in the economy, is characterized by the initial stages of development of integration formations. The centralization of powers of collective management body integration formation

provides an opportunity to coordinate activities of direct control and precision of the activities carried out, but this can produce a conservative and bureaucratic decision-making, which reduces the flexibility and speed of decision - making in the field.

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