# The Stability and Growth Pact

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The provisions of the Maastricht Treaty on the conditions that the Member States had to fulfil in order to join the single currency were to be supplemented by a ‘Stability and Growth Pact’. The Germans, reluctantly accepting the disappearance of the mark in favour of the euro, insisted that its value be permanently guaranteed. The countries which had met the Maastricht criteria, thereby allowing them to join the EMU, must not allow their deficits to increase in the future. The Madrid European Council noted this requirement, yet the mechanism of the Stability Pact was yet to be defined.

Encouraged by the Bundesbank, the German Minister of Finance, Theo Waigel, recommended that government deficit should not exceed 1 % of GDP (as opposed to 3 % for accession) and that, should a Member State exceed this threshold, the sanctions laid down in the Treaty would be applied automatically. The Commission approved but believed that 3 % of GDP should be the reference value maintained without the automatic application of sanctions. The countries of northern Europe were of the same opinion, but the southern European countries were reluctant to accept any obligation, rejecting a ‘strict unending plan’. The Florence European Council, held on 21 and 22 June 1996, decided to set a 3 % threshold, which Member States could exceed only under exceptional and temporary circumstances. The Member States committed themselves only to maintaining sound government finances close to balance by setting medium-term specific targets. The problem posed by the automatic application of sanctions was yet to be resolved. Following a lively debate, the Dublin European Council held on 13 and 14 December stated that the Ecofin Council of Ministers had to decide upon the sanctions to be imposed, i.e. on the basis of a political assessment, and that the case in question had to result from exceptional circumstances, particularly an economic downturn. France suggested the text be entitled ‘Stability and Growth Pact’, and the addition of the word ‘growth’ highlighted not only their monetary, but also their economic concerns. In its conclusions, the Dublin Council approved the principal issues underpinning the Pact, which was set to be endorsed by the European Council due to meet in Amsterdam.

However, the left-wing parties were victorious in the French general elections held from 25 May to 1 June 1997. The Socialist, Lionel Jospin, newly appointed Prime Minister, believed that the EMS arrangements did not sufficiently accommodate social aims and did not establish a true ‘economic government’ of Europe. He therefore wished to amend the Pact. The Germans, who fought tooth and nail to secure it, opposed his proposal, and President Jacques Chirac reiterated that France had already accepted it, as had its partners. A compromise was ultimately reached: the simultaneous adoption by the Amsterdam European Council held on 16 and 17 June 1997 of the Stability and Growth Pact, to compliance with which the Commission, Council and Member States were committed, and of two resolutions on growth and employment as well as a decision to coordinate economic policies. The provisions of the Pact were later laid down in two Council regulations of 7 July.

The Pact established a system for the coordination and surveillance of national budgetary policies. The countries joining the single currency had to submit an annual stability programme. All public deficits (budgetary, social and those deriving from local authority deficits) could not exceed the 3 % of GDP threshold. It was a relatively broad margin that should allow a Member State to adjust its budgetary policy in accordance with its economic climate (in France, 3 % of GDP accounted for 20 % of the budget). The Commission was responsible for the surveillance procedure; it asked the Member States to provide it with the necessary information, analysed it and then submitted a report to the Economic and Financial Committee, which delivered its opinion. The Commission addressed a recommendation to the Ecofin Council, which then took a decision by a qualified majority vote. If a Member State exceeded the 3 % threshold, the Council would address a recommendation to the Member State in breach of the procedure. If this proved insufficient, sanctions adjusted to the State’s national economy would be imposed. A recession of more than 2 % of GDP would be recognised as an exceptional case, and sanctions would not be imposed. The Council would carry out an assessment for recessions of between 2 % and 0.75 %, and in the case of recessions of less than 0.75 %, the Member State at fault would not be able to invoke exceptional circumstances, and non-pecuniary sanctions would be imposed. The Council may require the Member State in question to publish additional information before issuing bonds and securities, ask the European Investment Bank to reconsider its lending policy towards the Member State concerned, require the Member

State concerned to make a non-interest-bearing deposit until the excessive deficit had been corrected, and, finally, impose fines of an appropriate size.