

Building a Strengthened Fiscal Framework in the European Union:

A Guide to the Stability and Growth Pact

This publication provides an overview of the Stability and Growth Pact (SGP), the rule-based framework for fiscal policy in the European Union. It is organized into two sections. The first section provides a historical look at the evolution of the SGP's framework, from the Pact's origins in the Maastricht Treaty, which launched Economic and Monetary Union (EMU) and the euro, to the most recent Two Pack reforms of May 2013. It presents the changes that were made to the framework over the years and discusses the reasons for the reforms. The second section provides a description of the application of the SGP today, looking at the Pact's two arms: the preventive arm, which aims to ensure sound budgetary policies over the medium term by setting parameters for Member States' fiscal planning and policies during normal economic times, and the corrective arm, which implements out the step-based Excessive Deficit Procedure for countries to take corrective action if their deficit or debt is judged to be too high. This section provides the reader with an understanding of how the concepts discussed in the first part are implemented in practice. This guide is published alongside a "Vade mecum on the Stability and Growth Pact" which contains a detailed description of the procedures and methodologies for implementing the Stability and Growth Pact (SGP) and is aimed primarily at technicians working on budgetary policies.