Glossary:Stability and growth pact (SGP)

Statistics Explained

The **Stability and growth pact** , abbreviated as **SGP** , is a rule-based framework for the coordination of national fiscal policies under economic and monetary union (EMU) and the creation of the euro area with its single currency, the euro . It was established to safeguard sound public finances, an important requirement for EMU to function properly. The SGP consists of a preventive and a dissuasive arm.

The SGP has to be seen against the background of Stage III of economic and monetary union, which began on 1 January 1999. Its aim is to ensure that the Member States continue their budgetary discipline efforts once the euro has been introduced.

The pact stems from a European Council resolution (adopted at Amsterdam on 17 June 1997) and two Council regulations of 7 July 1997 laying down detailed technical arrangements, one on the surveillance of budgetary positions and coordination of economic policies and the other on implementing the Excessive deficit procedure .

In the medium term, the euro-area Member States undertake to achieve a balanced or nearly balanced budget and to give the Council and the European Commission a stability programme every year. Along the same lines, Member States outside the euro area are required to submit a convergence programme .

The Stability and growth pact opens the way for the Council to penalise any euro area Member State that fails to take appropriate measures to end an excessive deficit . Initially, the penalty takes the form of a non-interest bearing deposit with the EU, but it could be converted into a fine if the excessive deficit is not corrected within two years.

Further information

- European Commission - Economic and Financial Affairs - Stability and Growth Pact

Related concepts

- Economic and monetary union (EMU)
- Excessive deficit procedure (EDP)