

Appendix 2: the Maastricht Treaty and the Stability and Growth pact

The Maastricht Treaty:

In his Article 104, the Maastricht Treaty establishes a memorandum to conduct economic policy. Indeed, a number of rules, known as the convergence criteria, have to be fulfilled by each member state. These rules assess the economic and monetary convergence of each candidate member. This is quantified thanks to five metrics: inflation, government budget deficit, government debt-to-GDP, exchange rate and long-term interest rate.

Emphasis is set on the achievement of fiscal discipline as a qualification to join the single currency. According to Article 104c¹, “*Member states shall avoid excessive government deficits*”. In figures, fiscal compliance is evaluated on the basis of two measurements:

- Whether the government budget deficit exceeds the reference value of 3 percent of GDP
- Whether the government debt exceeds the 60 percent of GDP threshold

If a Member state does not fulfill the criteria mentioned above, Article 104c provides that the European Commission initiate a procedure aimed at correcting the situation. The procedure works gradually, with tools going from simply recommendations to binding sanctions as non-interest-bearing deposits and fines (Maastricht Treaty, 1992).

As regards the European Central Bank (ECB), she is responsible for both the convergence of the monetary policies of the candidate states and the introduction of the single currency.

The Stability and Growth Pact (SGP):

The SGP’s rules can be classified according to two different branches, namely the preventive and the corrective arm.

First, the rules with respect to surveillance are part of the so-called ‘preventive arm’ of the SGP. This arm sets for each member state a budgetary anchor, known as the Medium-Term Budgetary Target Objective (MTO)(ec.europa.eu). Technically speaking, the core element of the SGP requires each member state to pursue “*medium-term objectives of budgetary*

¹ Maastricht Treaty. (1992). Treaty on economic union. Article 104C

*positions close to balance or in surplus*². This should allow member states to deal with adverse economic fluctuations without having to enforce pro-cyclical measures. Apart from the case of “exceptionality” condition member states should overcome adverse economic downturns while at the same time respect the 3 percent cap of budget deficit (Buti *et al*, 1998),

As for the Excessive Deficit Procedure (EDP), she’s integral part of the ‘corrective arm’ of the SGP. The purpose of the procedure is to contribute to the correction of budget deficit or public debt burdens that take problematic directions.

² Resolution of the European Council on the Stability and Growth Pact, Amsterdam, 17 June 1997.