1st December 2010

The European Union grants EUR 5.5 million to help Tonga face the consequences of the economic crisis

Today, the European Union (EU) approved a financing decision of EUR 5.5 million (approx. TOP 13.8 million) for Tonga in the framework of the Vulnerability FLEX mechanism (V-FLEX). The EU's assistance aims to mitigate the adverse effects of the global economic crisis on the country's public finances.

"The Kingdom of Tonga has been hit particularly hard by the global economic downturn as the impacts of the crisis severely affected the country's tourism industry, remittance flows and agricultural exports. The EU assistance via V-FLEX aims to help close the current fiscal financing gap and ensure that essential social services can be maintained", said Ambassador Wiepke van der Goot, Head of the EU Delegation for the Pacific.

Tonga's gross domestic product (GDP) contracted in 2009 and 2010 because of a region-wide slump in the tourism industry and a reduction in remittances. The combination of sharply contracting revenues and relatively inflexible expenditure commitments has resulted in a serious and potentially growing budget deficit. The EU's V-FLEX assistance will help to address Tonga's economic fragility and effectively reduce the fiscal financing gap, consequently improving Tonga's macroeconomic standing. The V-FLEX funds will be as budget support, which will enable the government of Tonga to maintain its level of public spending in priority areas, including in the social sectors, without jeopardising macroeconomic stability.

The EUR 5.5 million V-FLEX financing decision comes in addition to the programmed EU development assistance from the 10^{th} European Development Fund amounting to EUR 5.9 million. In line with Tonga's national strategic planning framework which focuses on a limited number of national priorities, a large part of the EU's assistance has been allocated to renewable energy.

Background:

The Vulnerability FLEX mechanism is the European Union's swift response to help countries which were the most affected by the economic downturn. It was created in 2009 and was allocated EUR 500 million over two years (2009-2010).

It is demand-driven and targeted at countries with a high degree of economic, social and political vulnerability, the right policies in place to fight the crisis and sufficient absorptive capacity as well as a financing gap in their budgets where EU support can make a difference by closing or significantly reducing this gap.

See also: Press Release IP/10/1091

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