



## COVID-19 Economic Response Plan

July 2020

# Interest Relief Program

## Less financial stress for households and businesses

### Context

The Cook Islands economy is highly reliant on the tourism industry, with an estimated 65 per cent of economic activity driven by tourism. This makes the economy vulnerable to shocks that impact the tourism industry. The COVID-19 pandemic has had a significant negative impact on the economy, with growth forecast to be around negative 35 per cent in 2020/21 without Government support.

In response, the Cook Islands Government has developed the Economic Response Plan to target areas of the economy that are a risk to economic stability, while also looking at avenues to generate growth in the short-term.

The **Interest Relief Program** is designed to assist individuals and businesses throughout the period 1 July 2020 and 30 June 2021, to reduce the financial stress caused by the economic downturn, ensure business continuity and foster new business investment to drive economic growth.

### Summary

The Government is introducing the **Interest Relief Program** to provide support for Cook Islands businesses and individuals by reducing the burden of existing debt held with the Cook Islands commercial banks. The Government will provide funding to the commercial banks to cover 70 per cent of interest costs on existing debt held by businesses and individuals during the period 1 July 2020 to 30 June 2021, in the form of a grant payment to the banks on behalf of the borrower.

### Objective

The **Interest Relief Program** is intended to support households and businesses during the economic downturn, by reducing financial stress resulting from existing debt commitments.



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## Interest Relief Program

The **Interest Relief Program** will work in tandem with the loan repayment deferral currently offered by the commercial banks, to assist in reducing the interest burden once the repayment deferral is over.

The Government will cover 70 per cent of the cost of interest over the 2020-21 financial year, up to the maximum relief of \$175,000 per individual or business, thereby reducing the amount of interest compounded into the loan principal over the repayment deferral period.

### What happens to the interest due?

This program will provide a one-off grant on behalf of existing debt holders to the principal of the loan, which represents 70 per cent of the interest cost, up to the maximum relief, on existing loans over the period. The remaining interest is either paid by the borrower, or compounded – depending on the status of the borrower.

Aggregate payment(s) will be made by the Ministry of Finance and Economic Management to each commercial bank, on behalf of each borrower (or borrowers in the case of a partnership) to cover the Government's contribution.

This payment is made to the principal of the loan, and will not alter the repayment amounts or arrangements directly.

### How about the principal?

The commercial banks are currently providing a principal repayment deferral for a period of six months from 29 February 2020. The principal repayment deferral program is an opt-in program for those who have been impacted by the Covid-19 pandemic.

The critical components of the bank loan repayment deferral are:

- The arrears status of loans as at 29 February 2020 is quarantined — if you were up to date on 29 February, you will be up to date after the deferral period, and if you were in arrears on that date, you will be no further in arrears.
- Interest will be compounded into the loans over the deferral period (thereby increasing the principal amount), and the terms of the loan (such as the repayment schedule) will be adjusted in consultation with the borrower.

Subject to regulatory approval, the banks will extend this for an additional six month period.

### Eligibility

All loans, excluding overdraft and credit card facilities, which were on the books as of 29 February 2020 held with Cook Islands' commercial banks (BCI, BSP and ANZ) will automatically have the interest relief applied to them, so there is no further eligibility criteria.

### How to apply

Borrowers do not need to apply for the Interest Relief Program, as they are automatically included if they held debt as at 29 February 2020.

## **How does the process work?**

The process works as follows:

1. The banks calculate interest owing on each loan for the period 1 July to 30 June 2021;
2. Government pays the banks 70 per cent of interest owing (as per the agreed calculation).

## **Timing**

This initiative will be available from 1 July 2020 and will continue for twelve months to 30 June 2021.

## **Cost**

The cost of this program is expected to be \$14.2 million for the twelve month period from 1 July to 30 June 2021.

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