



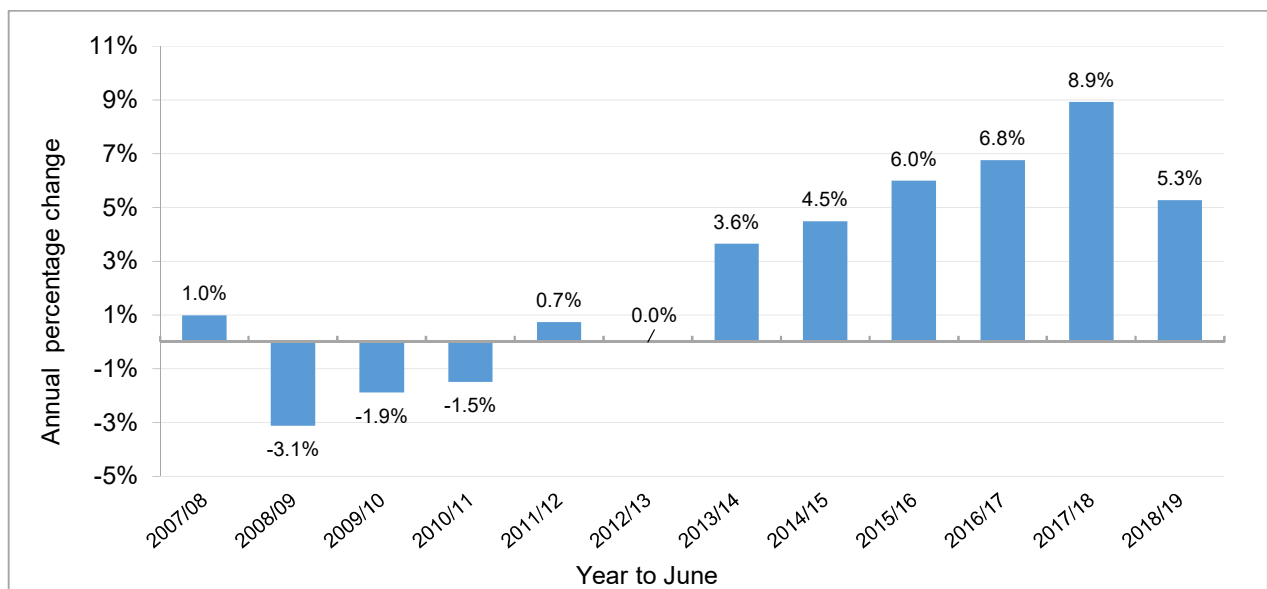
## Cook Islands Economic Response to COVID-19

COVID-19 has spread rapidly across the world, resulting in impacts on the health of both individuals and economies globally. While COVID-19 itself has not yet reached the Cook Islands, the economic impacts are already being felt through substantial declines in tourism. An economic response plan has been developed which outlines policy actions that the Government will undertake in response to a range of possible economic impacts.

### Economic update – where were we prior to COVID-19?

The Cook Islands economy has been experiencing strong growth since 2014, with real growth reaching a high of 8.9 per cent in 2017/18. These strong growth rates mean the economy is in a strong position, and more importantly, that most businesses and the Government are in a robust financial position at the start of this crisis, with low debt and high liquidity in the economy.

Figure 1: Historical real GDP growth



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## How is COVID-19 impacting the Cook Islands economy?

Border closures around the world, and in particular, in the Cook Islands and New Zealand, which commenced on 16 and 19 March respectively, are already having a substantial demand side impact on the economy through decreased tourism arrivals. While this is required from a health and livelihoods perspective, the number of tourist arrivals is expected to be minimal until border restrictions are reduced, which could be over a period of 3-6 months.

With tourism the major driver of the Cook Islands economy, we are anticipating a significant decline in economic activity over the last quarter of 2019/20 and continuing into 2020/21, with reduced demand for goods and services. In the absence of Government intervention, this will result in substantial job losses, causing further economic disruption and decline.

Compounding the demand side shocks are the supply impacts. During the peak of cases in China, factories were shut down to ensure that quarantine rules could be implemented effectively. This impacted supply chains around the world which are highly reliant on imported goods from China. Estimates are that production in China fell to 50-60 per cent of usual levels but is now normalising. The impact of this may be mitigated by production ramping up to deal with the shortfall, however this is yet to be seen.<sup>1</sup> Supply chain impacts are being felt in both New Zealand and Australia, however, anecdotal reports at this stage suggest that the Cook Islands will only experience minor disruptions to supply.

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## Impacts on the global economy

### New Zealand

The New Zealand Finance Minister announced on 17 March 2020 that a recession in New Zealand is almost certain, having received advice that the economic shock will be larger than that seen during the Global Financial Crisis.<sup>2</sup> In response, the New Zealand Government is implementing a \$12.1 billion package of measures including a wage subsidy scheme, leave and self-isolation support and business cash flow and tax measures. This follows the Reserve Bank of New Zealand cutting the official cash rate from 1.00 to 0.25 per cent on 16 March 2020.<sup>3</sup>

New Zealand has also instituted increasingly strict border measures, with no foreign travellers allowed entry and returning New Zealand residents or citizens required to self-isolate for 14 days.<sup>4</sup> This measure will severely curtail tourist arrivals from New Zealand to the Cook Islands until the restrictions are lifted.

### Australia

Analysis of the Australian economy suggests that COVID-19, together with the Australian bushfires, have the potential to push the Australian economy into recession. COVID-19 has had a significant impact on two key sectors; tourism and education, with a reliance on both Chinese tourists and students. The impacts of social distancing are now also being felt in other sectors of the economy.

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<sup>1</sup> ADB (2020). The Economic Impact of the COVID-19 Outbreak on Developing Asia, ADB Brief No. 128, Manila, 6 March 2020: <https://www.adb.org/sites/default/files/publication/571536/adb-brief-128-economic-impact-covid19-developing-asia.pdf>: p. 4.

<sup>2</sup> New Zealand Government (2020). COVID-19 Economic Package Announced: Speech by the Minister of Finance, 17 March 2020: <https://treasury.govt.nz/news-and-events/news/covid-19-economic-package-announced>.

<sup>3</sup> Reserve Bank of New Zealand (2020). Media Release: OCR reduced to 0.25 percent for next 12 months, Wellington, 16 March 2020: <https://www.rbnz.govt.nz/news/2020/03/ocr-reduced-to-025-percent-for-next-12-months>.

<sup>4</sup> See: <https://covid19.govt.nz/help-and-advice/for-travellers/international-travel/>.

To respond to the economic fallout of COVID-19, a number of measures have been introduced. The Reserve Bank of Australia cut interest rates to a low of 0.25 per cent on 19 March 2020.<sup>5</sup> This was followed by an announcement by the Australian Government of an economic response totaling AU\$17.6 billion across the next four years targeting four key areas: delivering support for business investment, cash flow assistance for employers, stimulus payments to households to support growth and assistance for severely affected regions.<sup>6</sup>

## Asia

Various forecasts of the impact on the Asian economies have been undertaken, however the uncertainty surrounding COVID-19 impacts upon the reliability of these forecasts.<sup>7</sup> What is clear, is that the first half of 2020 will see extremely low growth for Asia, in particular China. Many businesses were forced to shut down due to quarantine measures, including large-scale factories and manufacturers.

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## The Cook Islands economic response

### Scenario modelling

The Ministry of Finance and Economic Management (MFEM) has developed estimates of the impact of a decrease in tourist arrivals on economic growth over a four-year period, and in turn, how this would affect government revenues, and fiscal balances. Three scenarios have been considered:

- A short impact affecting arrivals during the months of March to June 2020.
- A medium-term scenario with a decreasing impact from March to December 2020.
- A worst-case scenario with a decreasing impact from March 2020 to June 2021.

### Plan objectives

The three scenarios have been used to inform the Government's economic response, the **COVID-19 Economic Response Plan** (the Plan). The Plan has three objectives.

The first is to stimulate demand through support to local business to ensure that the economy is able to continue to operate, even at a reduced level, during this period of extreme uncertainty surrounding COVID-19.

The second is to support the livelihoods of those that are likely to be most affected by the economic fallout, including those required to self-isolate, those that lose their jobs and the elderly and infirm.

The third objective is to achieve the first two objectives in a fiscally responsible manner that does not undermine the Government's ability to undertake further fiscal intervention over the longer-term, should that prove necessary.

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<sup>5</sup> Reserve Bank of Australia (2020). Media Release: Statement by Philip Lowe, Governor: Monetary Policy Decision, Sydney, 19 March 2020: <https://www.rba.gov.au/media-releases/2020/mr-20-08.html>.

<sup>6</sup> Australian Government (2020). *Economic Response to the Coronavirus*, The Treasury, Canberra: <https://treasury.gov.au/coronavirus>.

<sup>7</sup> See for example: ADB (2020). *The Economic Impact of the COVID-19 Outbreak on Developing Asia*, ADB Brief No. 128, Manila, 6 March 2020: <https://www.adb.org/sites/default/files/publication/571536/adb-brief-128-economic-impact-covid19-developing-asia.pdf>.

## Plan structure

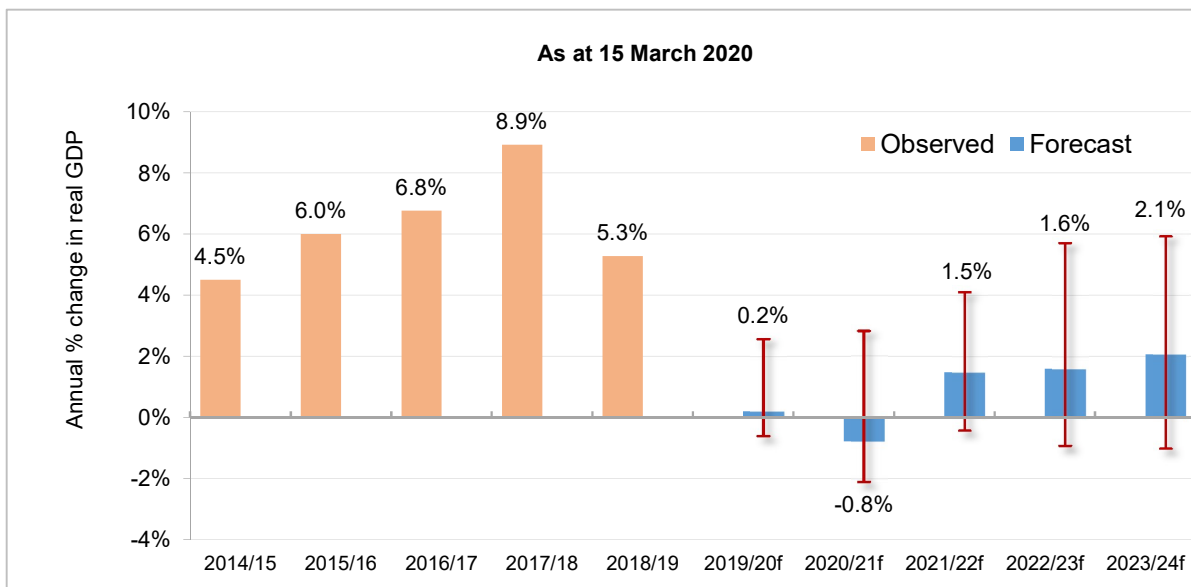
The Plan incorporates a 3 stage intervention system, with increasing levels of Government intervention based on forecasts of economic growth or contraction. The Plan targets different recipients at different levels of forecast economic growth, with the key focus on individuals affected by the virus, directly or indirectly, and businesses (see [Appendix 1: Stimulus measures by stage](#) for details on the interventions).

Intervention Stage	Theme	Thresholds/triggers
<b>Stage 1</b>	Economic policies to support health and maintain the population	Economic Growth forecast to be: Above +1 per cent in 2019/20 and 2020/21
<b>Stage 2</b>	Maintain economic activity and livelihoods	Between $\pm 1$ per cent in 2019/20 and 2020/21
<b>Stage 3</b>	Increasing investment to drive growth in the absence of tourism	Less than -1 per cent in either 2019/20 or 2020/21

## Revised economic forecasts

On 15 March 2019, informed by the scenario modelling, MFEM revised down its 2019/20 Half-year Economic and Fiscal Update (HYEFU) economic forecasts to account for expected impacts of the coronavirus in the last quarter of 2019/20 and further into 2020/21. The revised forecasts for real growth in Gross Domestic Product are 0.2 per cent in 2019/20 (down from 3.5 per cent in the HYEFU) and minus 0.8 per cent in 2020/21 (down from 2.2 per cent). Government forecasting is done on a fiscal year, which runs from July to June, as such the expected impact is split across both 2019/20 and 2020/21. Due to the high degree of uncertainty about the impact of the pandemic, the revised forecasts are similarly subject to a high degree of uncertainty.

Figure 2: Revised Cook Islands economic growth forecasts (to June year)



## Activating Stage 1 and Stage 2 Interventions

Applying the downgraded forecasts in the Plan, and as the first Government response to the immediate situation, the Deputy Prime Minister and Finance Minister Mark Brown announced on 18 March 2020 that the Government will proceed with implementing all activities proposed in Stage 1 and Stage 2, with additional expenditure appropriated in the 2019/20 Supplementary Budget scheduled for 25 March 2020.<sup>8</sup>

The first two stages of intervention, detailed in [Appendix 1](#), are targeted at sustaining livelihoods and maintaining business continuity. They include a range of income support initiatives for individuals and households, cashflow measures for businesses, and a redeployment initiative for the unemployed.

## Stage 3 Interventions

Minister Brown also foreshadowed that additional measures, encompassing a broader longer-term recovery package, set out in the Stage 3 intervention measures, will be tabled in Parliament in June 2020 as part of the 2020/21 Budget session.

In preparation, MFEM is further revising its forecasts, accounting for unprecedented events unfolding at a rapid rate. The 15 March 2020 revised forecasts assumed some continued visitor flow from New Zealand residents in the June quarter 2020, albeit at reduced levels. The subsequent self-isolation restrictions on returning New Zealand residents and citizens announced by the New Zealand authorities voids this assumption. This one event is likely to take the Cook Islands into stage 3 in 2019/20 and may drive 2020/21 growth down below -1 per cent. These expected changes will be reflected in revised forecasts for the 2019/20 Supplementary Budget.

The stage 3 interventions are measures aimed at increasing investment and driving growth over a more drawn out absence of tourists should the global economic impact of the pandemic continue for some time after the immediate crisis is resolved. MFEM is working closely with the commercial banks and other private sector stakeholders on developing the finer details of the current stage 3 interventions listed in [Appendix 1](#), which include:

- low interest loans to large businesses;
- additional tax relief measures related to asset write-offs;
- low interest loan facility on attractive repayment terms from the Cook Islands commercial banks for small businesses; and
- further CINSF adjustments.

MFEM will monitor the economic situation as the local and global impacts of the COVID-19 pandemic evolve and the Government will intervene with more extreme measures under stage 3 should the circumstances require it.

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<sup>8</sup> Cook Islands Government (2020). [Media Release: Announcement by Deputy Prime Minister and Minister of Finance the Hon. Mark Brown Cook Islands Covid-19 Economic Response Plan](http://www.mfem.gov.ck/images/documents/CEO_docs/Press-Releases/DPM_and_Finance_Minister_Mark_Brown_announcement_COVID_19_Economic_Response_18_March_2020.pdf), Avarua, 18 March 2020: [http://www.mfem.gov.ck/images/documents/CEO\\_docs/Press-Releases/DPM\\_and\\_Finance\\_Minister\\_Mark\\_Brown\\_announcement\\_COVID\\_19\\_Economic\\_Response\\_18\\_March\\_2020.pdf](http://www.mfem.gov.ck/images/documents/CEO_docs/Press-Releases/DPM_and_Finance_Minister_Mark_Brown_announcement_COVID_19_Economic_Response_18_March_2020.pdf).

## Paying for the Plan

### Value

The Government's COVID-19 Economic Response Plan has a total value of \$61 million. This includes the direct cost to Government that will be appropriated across the Supplementary Budget 2019/20 and the 2020/21 Budget, respectively. It also includes the indirect cost to Government for measures such as the electricity subsidy (covered by Te Aponga Uira and Te Mana Uira O Araura), Cook Islands National Superannuation Fund contribution reductions, and tax relief measures.

It does not include private sector stimulus measures such as those being implemented by Vodafone Cook Islands Limited or the commercial banks.

Table 1 shows the cost breakdown by major category.

*Table 1: Cost of the Economic Response Plan*

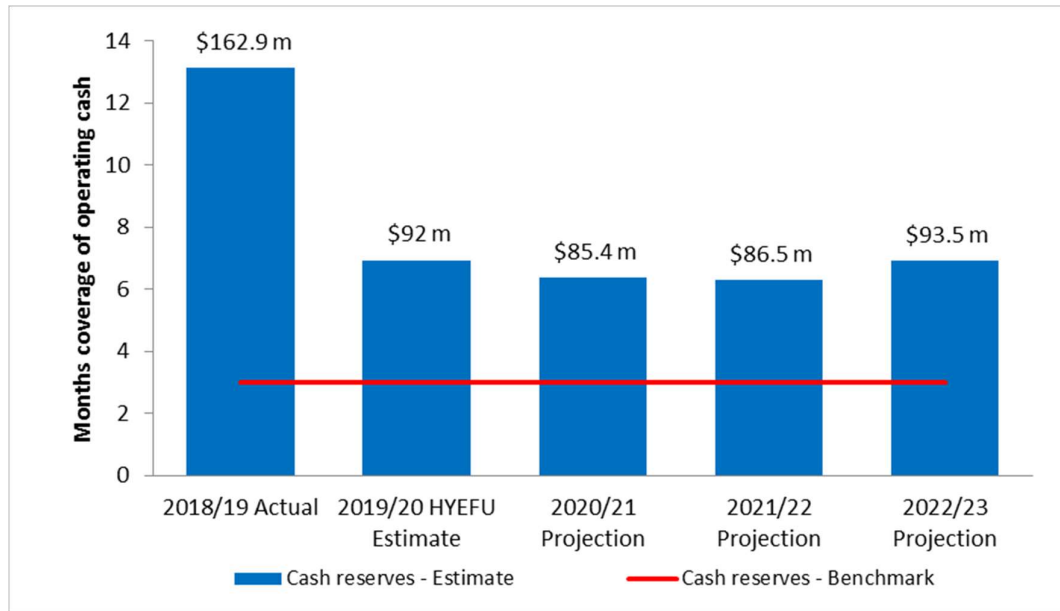
Measure	Government 2019/20	Government 2020/21	External party (2019/20 and 2020/21)
MOH	\$5,000,000		
Self-isolation	\$2,298,825		
Small capital works program	\$2,000,000		
Major capital projects		\$12,000,000	
Unemployment benefit	\$972,111		
Wage Subsidy	\$19,152,000	\$3,360,000	
Child benefit payment	\$1,002,200		
One-off welfare payment	\$870,000		
Redeployment Program	\$50,000		
Business Grants	\$3,362,000		
Indirect costs (tax relief, TAU etc.)	\$2,320,000		\$9,000,000
<b>Total</b>	<b>\$37,027,136</b>	<b>\$15,360,000</b>	<b>\$9,000,000</b>

### Impact on the Budget

The Plan is expected to have a positive impact on economic growth, equivalent to the direct cost to Government, placing \$34.7m into the economy to fill some of the gap created by the decrease in tourism arrivals, the equivalent of approximately 6 per cent of GDP.

While updated revenue and fiscal forecasts will be released in the 2019/20 Supplementary Budget, the Half-Year Economic and Fiscal Update provides a clear indication as to the level of cash that the Government has available to respond to COVID-19.

Figure 3: Cash balances at 2019/20 Half-Year Economic and Fiscal Update



The above estimates show the cash reserves available to Government at the end of each year after accounting for all expenditures. These figures do not include the \$56.7 million available in the Stabilisation Fund, taking total Government reserves at the end of 2019/20 (as forecast at HYEUFU) to \$148.7 million (excluding the Loan Reserve Fund).

As such, Government is prepared for a downturn in revenue, and an increase in expenditure. The measures in the 2019/20 Supplementary Budget are to be funded from cash reserves and a reallocation of expenditure. The 2020/21 measures to be drawn from the Stabilisation Fund and additional donor or debt financing, if necessary.

Updated cash reserve forecasts will be provided in the Supplementary Budget 2019/20 which incorporate revised revenue forecasts.

## Appendix 1: Stimulus measures by Stage – direct by Government

	Stage 1	Stage 2	Stage 3
<b>Individuals</b>	<b>Support for self-isolation</b> Provision of two weeks of minimum wage if under self-isolation instruction from Ministry of Health – to be paid via employer.	<b>Unemployment initiative</b> One month of benefits at the minimum wage to be provided to all individuals who have become unemployed due to the impact of COVID-19.  The Labour Division of INTAFF will work with the unemployed and employers to find new positions for any unemployed workers.	Further measures to be developed prior to the 2020/21 Budget
		<b>School closure support</b> A child benefit payment of \$100 for each fortnight that school holidays are extended for all children.	
		<b>Support for welfare recipients</b> One-off payment to pensioners, care givers, the destitute and infirm of \$400.	
		<b>Electricity Discount</b> Te Aponga Uira - 100 per cent discount for all domestic customers for electricity use.  Te Mana Uira o Araura - 100 per cent discount all customers.	
<b>Small/medium Business only</b>		<b>Cash grants</b> One-off payment for registered businesses of: <ul style="list-style-type: none"> <li>• \$2,000 for Sole-traders;</li> <li>• \$5,000 for those with a turnover less than \$300,000.</li> <li>• \$10,000 for those businesses with a turnover between \$300,000 and \$5 million</li> </ul>	<b>Cash flow support</b> Government will provide low interest loans on a case-by-case basis
<b>Large business</b>		<b>Cash grants</b> One-off payment of \$15,000 for registered businesses with a turnover greater than \$5 million per year	<b>Cash-flow support</b> Government will provide low interest loans up to \$500,000 on a case-by-case basis
<b>All Business</b>		<b>Wage Subsidies</b> Wage subsidies equivalent to the minimum wage will be paid to the employer to subsidise employee wage costs for a 12	<b>CINSF Contributions</b> Reduce employer and employee contributions to 0% for a 3 month period



	<b>Stage 1</b>	<b>Stage 2</b>	<b>Stage 3</b>
<b>All Business</b>		week period from 30 March 2020.	
		<b>Upskilling our workforce</b> Wage subsidy provided for an additional 3 months to businesses that provide official training for their employees, to be paid from 1 July to 30 September 2020.	
		<b>CINSF Contributions</b> Reduce employer and employee contributions to 3% for a 3 month period from 1 April to 30 June 2020.	
		<b>Electricity Discount</b> Te Aponga Uira - 60 per cent discount for all commercial customers for electricity use.  Te Mana Uira o Araura - 100 per cent discount for all customers.	
<b>Tax Relief</b>	<ol style="list-style-type: none"> <li>Provisional Tax Adjustments – Re-estimates of provisional tax obligations to be permitted. If circumstances have changed due to COVID-19, early refunds can be arranged if provisional tax has been overpaid.</li> <li>Individuals and businesses that are unable to pay their tax – instalment arrangements can be set up. Alternatively, applications for a write-off due to serious hardship can be made, where business and individuals know they won't be able to pay the full amount.</li> </ol>	<ol style="list-style-type: none"> <li>Provisional tax threshold increase from \$2,000 to \$5,000</li> <li>Income tax credit of \$2,000 for registered tourist accommodation providers with less than 10 beds</li> </ol>	Further work is being undertaken to develop tax relief measures for Stage 3. They will include; <ol style="list-style-type: none"> <li>Introducing an asset write off</li> <li>A double deductions for qualifying expenditure</li> </ol>
<b>Government Capital Expenditure</b>		<b>Small Capital projects</b> An additional \$2 million dollars of small capital projects being appropriated	<b>Large capital projects</b> Fast-tracking \$12 million of large capital projects

Note: all references to minimum wage are calculated at a maximum of a 35 hour week

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