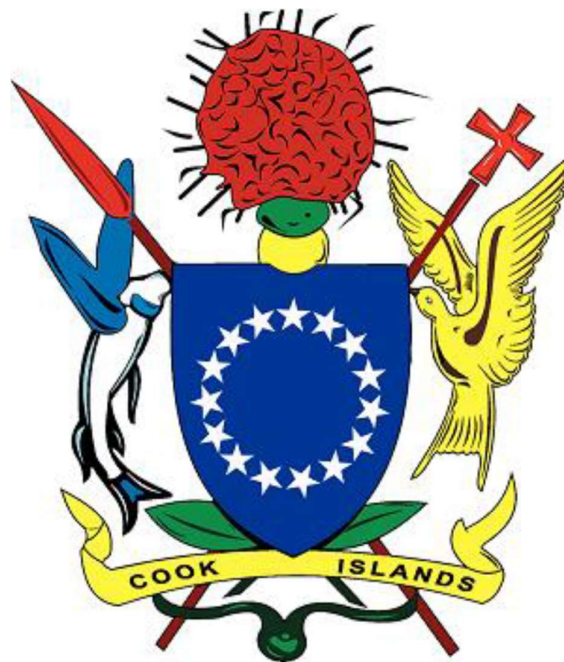

COOK ISLANDS GOVERNMENT

**2022/23 Half-Year Economic and
Fiscal Update**



Hon. Mark Brown
Minister of Finance

16th December 2022

Abbreviations and Acronyms

Term	Definition
ACL	Avaroa Cable Limited
ADB	Asian Development Bank
AIIB	Asian Infrastructure Investment Bank
AML	Anti-Money Laundering
BCCF	Business Continuity Credit Facility (Economic Response Plan)
COFOG	Classification of Functions of Government
COVID-19	Coronavirus Disease 2019
CPRO Loan	COVID-19 Pandemic Response Option Loan (Economic Response Plan)
CPI	Consumer Price Index
CSS	Core Sector Support
EDS	Economic Development Strategy
EEZ	Exclusive Economic Zone
ERP	COVID-19 Economic Response Plan
ERR	Economic Recovery Roadmap
GBS	General Budget Support
GDP	Gross Domestic Product
GFA	Grant Funding Agreement
GFS	Government Financial Statistics
HYEFU	Half-Year Economic and Fiscal Update
IMF	International Monetary Fund
LRF	Loan Reserve Fund
MTEC	Medium-term Expenditure Ceiling
MTFF	Medium-term Fiscal Framework
MTFS	Medium-term Fiscal Strategy
NSDA	National Sustainable Development Agenda 2020+
NSDP	National Sustainable Development Plan
NZD	New Zealand Dollars
ODA	Official Development Assistance
PFTAC	Pacific Financial Technical Assistance Centre
POBOC	Payments on Behalf of Crown
RBA	Reserve Bank of Australia
RBNZ	Reserve Bank of New Zealand
ROBOC	Revenue on Behalf of Crown
SOE	State Owned Enterprise
USD	United States Dollars

All figures presented in this report are in New Zealand Dollars (\$) unless otherwise specified.

Foreword

The Half Year Economic and Fiscal Update (HYEFU) is tabled in Parliament in December annually, and represents the latest information that the government holds on revenue, expenditure, aid, and debt funding as at the time of publication. Data was finalised at the following dates in the preparation of this document:

Economic forecasts	19 November, 2022
Tax Revenue forecasts	22 November, 2022
Fiscal forecasts	05 December, 2022
Fiscal forecast Shocks	05 December, 2022
Document Text	08 December, 2022

Economic and fiscal situations can evolve quickly, and readers are advised to contact the Ministry of Finance and Economic Management (MFEM) where concerns may exist regarding the currency of information presented in this document.

The HYEFU is prepared using information and contributions from multiple government agencies. MFEM acknowledges these contributions, and notes that questions on specific subject matter areas should generally be directed to the relevant agency. With revenue and other information contributed by the following agencies:

Ministry of Agriculture	Cook Islands Police
Ministry of Justice	Ministry of Transport
Ministry of Marine Resources	Ministry of Internal Affairs
Cook Islands Investment Corporation	Ministry of Foreign Affairs and Immigration
Financial Services Commission	Office of the Prime Minister

The Economic Planning Division also wishes to acknowledge the contributions of the following divisions of MFEM:

Chapter	Division
Crown Debt and Net Worth	Treasury Management Division
Official Development Assistance	Development Coordination Division

Disclaimer

The 2021/22 actual expenditure and revenue data may differ from the June 2022 Quarterly Financial Report due to the accrual accounting system used by the Cook Islands Government. The data presented in the 2022/23 HYEFU is a more accurate reflection of actual expenditure and revenues in 2021/22. Estimates of future expenditure and performance are based on information known at the time of preparation of this report.

Table of Contents

1	INTRODUCTION AND OVERVIEW	9
2	COVID-19 SPECIAL NOTE	10
2.1	FISCAL RESPONSE	10
2.2	DEBT FUNDING	13
2.3	OFFICIAL DEVELOPMENT ASSISTANCE	13
3	MEDIUM-TERM FISCAL STRATEGY 2023/24 – 2026/27	15
3.1	MTFS ECONOMIC AND FISCAL FORECASTS	16
3.2	MEDIUM-TERM NATIONAL PRIORITIES	23
3.3	ASSUMPTIONS UNDERLYING THE ECONOMIC AND FISCAL PROJECTIONS	25
3.4	FISCAL RISKS	26
4	FISCAL UPDATE	34
4.1	FISCAL INDICATORS AND PROJECTIONS	34
4.2	FISCAL RULES	36
4.3	UPDATES TO PREVIOUSLY REPORTED BUDGET DATA	38
4.4	MOVEMENTS SINCE THE 2022/23 BUDGET	38
5	GOVERNMENT FINANCIAL STATISTICS STATEMENT	44
5.1	GFS NET OPERATING BALANCE	45
5.2	GFS OPERATING REVENUE	45
5.3	GFS NON-OPERATING ITEMS	48
5.4	CLASSIFICATION OF FUNCTIONS OF GOVERNMENT	48
6	ECONOMIC UPDATE	51
6.1	OVERVIEW	51
6.2	THE GLOBAL ECONOMY	53
6.3	COOK ISLANDS ECONOMY	58
7	CROWN DEBT AND NET WORTH	72
7.1	DEBT HEADROOM	74
7.2	EXCHANGE RATE ANALYSIS	77
7.3	CROWN DEBT BY LENDERS	79
7.4	GROSS DEBT BY INDIVIDUAL LOAN	80
7.5	OTHER STATE-OWNED ENTERPRISE DEBT	81
8	OFFICIAL DEVELOPMENT ASSISTANCE	82
8.1	NEW ZEALAND PROGRAMMES	82
8.2	EUROPEAN UNION PROGRAMMES	85
8.3	JAPAN PROGRAMMES	86
8.4	INDIA PROGRAMMES	87
8.5	UNITED NATIONS PROGRAMMES	88
8.6	GREEN CLIMATE FUND PROGRAMMES	88
9	SCHEDULES	92
9.1	STATEMENT OF FISCAL RESPONSIBILITY (OPERATING)	92
9.2	STATEMENT OF FISCAL RESPONSIBILITY (NON-OPERATING)	93
9.3	FISCAL INDICATORS TABLE	94
9.4	SCHEDULE 1 – AGENCY BUDGET APPROPRIATIONS	95
9.5	SCHEDULE 2 – PAYMENTS ON BEHALF OF THE CROWN (POBOCS)	97
9.6	SCHEDULE 3 – COOK ISLANDS CAPITAL SPENDING	98
9.7	SCHEDULE 4 – OFFICIAL DEVELOPMENT ASSISTANCE	98
9.8	SCHEDULE 5A – OTHER EXPENSES & FINANCING TRANSACTIONS	98
9.9	SCHEDULE 5B – LOAN RESERVE FUND APPROPRIATION	98
9.10	SUMMARY	98
9.11	SCHEDULE 6 – CAPITAL SCHEDULE	99
9.12	SCHEDULE 7 – REVENUES ON BEHALF OF THE CROWN (ROBOCs)	101
9.13	SCHEDULE 8A – ADMINISTERED PAYMENTS	103
9.14	SCHEDULE 8B – PAYMENTS ON BEHALF OF CROWN (POBOCs)	107
9.15	SCHEDULE 9A – DEBT SERVICING SCHEDULE (\$'000)	109
9.16	SCHEDULE 9B – LOAN RESERVE FUND (LRF) SCHEDULE (\$'000)	109

9.17	SCHEDULE 10 – OFFICIAL DEVELOPMENT ASSISTANCE SCHEDULE	110
10	FINANCIAL STATEMENTS	113
10.1	STATEMENT OF FINANCIAL PERFORMANCE	113
10.2	STATEMENT OF FINANCIAL POSITION	114
10.3	STATEMENT OF BORROWINGS	114
10.4	STATEMENT OF CASHFLOW	115
10.5	STATEMENT OF FINANCIAL RISKS	116
11	STATEMENT OF ACCOUNTING POLICIES	117
11.1	BASIS OF PREPARATION	117
11.2	SIGNIFICANT ACCOUNTING POLICIES	117

List of Tables

Table 2-1	COVID-19 Medical Response Fund expenditure (\$'000)	11
Table 2-2	COVID-19 Medical Response Fund (Capital) Expenditure (\$'000)	11
Table 2-3	Economic Recovery Roadmap Expenditure (\$'000).....	12
Table 2-4	Summary of Official Development Assistance related to COVID-19 (\$NZD)	14
Table 3-1	Medium-term Expenditure Ceilings (\$ Million)	15
Table 3-2	Significant cyclones in the Cook Islands.....	28
Table 3-3	Quantifiable contingent liabilities, as at 1 December 2022.....	28
Table 3-4	Vested Asset Contingent Liability Expiry Schedule	29
Table 3-5	Low revenue shock	31
Table 3-6	High revenue shock.....	31
Table 3-7	High Opex Shock	31
Table 3-8	Low Capex Shock	32
Table 3-9	Low GDP Shock	32
Table 3-10	Low Arrivals Shock	32
Table 3-11	Severe Low Arrivals Shock	33
Table 3-12	Exchange rates assumptions +/- 10 per cent.....	33
Table 4-1	Fiscal Indicators Summary	35
Table 4-2	Reconciliation of Operating Statement (\$'000).....	39
Table 4-3	Updated Government Revenue Forecasts.....	42
Table 4-4	Updated Government Expenditure Forecasts	42
Table 4-5	Fiscal Balance.....	43
Table 5-1	GFS Statement	44
Table 5-2	Total GFS Operating Revenue (\$'000).....	45
Table 5-3	Total GFS Operating Expenditure (\$'000)	46
Table 5-4	Classification of Functions of Cook Island Government (\$000's).....	49
Table 6-1	Summary of Economic Indicators	52
Table 6-2	Real GDP growth (percentage change, year on year).....	53
Table 6-3	Estimated total arrivals, quarterly, 2021/22 to 2025/26.....	65
Table 6-4	Forecast total tourism numbers, by major market, 2021/22 to 2025/26	66
Table 6-5	Fishery catches in the Cook Islands EEZ by species (tonnes).....	70
Table 6-6	Total value of produce in 2021 (\$'000).....	71
Table 7-1	Key Targets 2023 - 2026	72
Table 7-2	Currency movement since Appropriation 2022/23 (million).....	72
Table 7-3	Debt movement since the Appropriation 2022/23 (million)	74
Table 7-4	Financing Requirements 2023-2026 ('000).....	74
Table 7-5	Exchange Rate Forecast – 2021/22 to 2025/26.....	77
Table 7-6	Base exchange rates assumptions used in 2022/23 Budget with +/- 10%	78
Table 7-7	Overall Debt by Lenders – June 2023	79
Table 7-8	Status of Government loans to 30 June 2023.....	80
Table 8-1	ODA Expenditure	82

List of Figures

Figure 2-1 Cumulative breakdown of COVID-19 Medical Response Fund Expenditure	11
Figure 2-2 Cumulative breakdown of ERR Expenditure to 30 November 2022.....	13
Figure 3-1 Expenditure Profile Shift through MTFS (\$'000).....	16
Figure 3-2 Annual real GDP growth	17
Figure 3-3 MTFS rule structure.....	19
Figure 3-4 Cash Reserves rule projections.....	20
Figure 3-5 Operating Expenditure rule growth projections	21
Figure 3-6 Net Debt rule projections.....	22
Figure 3-7 GDP and Net Debt Movements (\$million).....	23
Figure 3-8 Investment Rule Debt Headroom (\$ million).....	23
Figure 3-9 Relationship between key development documents.....	25
Figure 3-10 Sensitivity of gross debt to NZD movements	33
Figure 4-1 Cash Reserves rule.....	36
Figure 4-2 Expenditure Rule	37
Figure 4-3 Net debt to GDP ratio.....	37
Figure 4-4 Government Revenue Forecast Comparison.....	42
Figure 4-5 Government Expenditure Forecast Comparison	43
Figure 4-6 Government Fiscal Balance	43
Figure 5-1 GFS operating revenue, 2022/23.....	46
Figure 5-2 GFS operating expenditure, 2022/23	47
Figure 5-3 Classification of Functions of Cook Island Government, 2022/23.....	50
Figure 6-1 Annual percentage change in Real GDP	51
Figure 6-2 US Dollar exchange rate, New Zealand and Australia	55
Figure 6-3 IMF GDP growth estimates, selected countries	57
Figure 6-4 IMF inflation estimates, selected groupings and countries.....	57
Figure 6-5 IMF oil price estimates, 2000 to 2027, index, 2016 = 100.....	58
Figure 6-6 Cook Islands economy by industry, 12 months to March 2022	59
Figure 6-7 Contribution to nominal growth in the year to March 2022 (percentage point).....	60
Figure 6-8 Cook Islands CPI, year average, 2011/12 – 2021/22 (percentage change)	61
Figure 6-9 Contribution to 2021/22 year average inflation (percentage point).....	61
Figure 6-10 Annual average change in Cook Islands CPI (percentage).....	62
Figure 6-11 Import value by country of origin, year to June (\$'000).....	63
Figure 6-12 Value of total imports, annual, 2016/17 to 2025/26, year to June (\$'000).....	63
Figure 6-13 Major goods exports, 2021 and 2022, year to June (\$'000).....	64
Figure 6-14 Total visitor arrivals, 12-month total, 2013/14 to 2025/26.....	65
Figure 6-15 Contribution to Nominal GDP – year to March (\$ million)	66
Figure 6-16 Total value of bank deposits and loans, June 2018 to June 2022 (\$'000)	67
Figure 6-17 Building approvals, 2017 to 2022 (\$'000).....	68
Figure 6-18 Fishery catch in the Cook Islands EEZ.....	70
Figure 7-1 New Zealand 6-month Bank Bill Rate	73
Figure 7-2 Public Debt Portfolio by Currency – June 2023	73
Figure 7-3 Net debt to GDP (percentage of nominal GDP).....	75
Figure 7-4 Crown debt net of Loan Repayment Fund (\$ million)	76
Figure 7-5 10-year Net Debt Servicing Profile (\$ million)	76
Figure 7-6 Assumed changes in major exchange rates (indices – 2021/22 = 100).....	77
Figure 7-7 Sensitivity of Crown Gross Debt to NZD movements	78
Figure 7-8 Sensitivity of Crown Debt Servicing Costs to NZD movements	79
Figure 7-9 Overall Debt by Lenders – June 2023	79
Figure 7-10 Overall Debt by SOEs and Direct – June 2023	81



**GOVERNMENT OF THE COOK ISLANDS
OFFICE OF THE MINISTER OF FINANCE**

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16 December 2022

STATEMENT OF RESPONSIBILITY

I have read the Financial Secretary's Statement of Responsibility and concur with him regarding the preparation of the 2022/23 Half-year Economic and Fiscal Update (HYEFU).

To enable the Ministry of Finance and Economic Management to prepare the 2022/23 HYEFU, I have ensured that the Financial Secretary has been advised of all government decisions and other circumstances as at December 2022 of which I was aware and had material economic and fiscal implications.

The 2022/23 HYEFU has been produced in accordance with the *Ministry of Finance and Economic Management Act 1995-96*.

I accept the overall responsibility for the integrity of the disclosures contained in this document, and the consistency and completeness of the information in compliance with the requirements of the *Ministry of Finance and Economic Management Act 1995-96*.

Kia manuia,

A handwritten signature in blue ink, appearing to read 'Mark Brown', written over a horizontal line.

Honourable Mark Brown

Minister of Finance



**MINISTRY OF FINANCE AND ECONOMIC MANAGEMENT
GOVERNMENT OF THE COOK ISLANDS**

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16 December 2022

STATEMENT OF RESPONSIBILITY

This Half Year Economic and Fiscal Update (HYEFU) 2022/23 is prepared in accordance with Section 11 and 16 of the *Ministry of Finance and Economic Management Act 1995-96*. Section 16 further states that the Minister shall no earlier than the 1st day of December, nor later than the 31st day of December in each financial year, cause to be published a report containing an economic and fiscal update prepared by the Ministry.

Therefore, in accordance with Section 30(2) of the *Ministry of Finance and Economic Management Act 1995-96*, the Minister of Finance and the Financial Secretary shall prepare and sign a Statement of Responsibility for the financial statements.

The integrity of the disclosures and consistency with the requirements of the Ministry of Finance and Economic Management Act 1995-96 are warranted in relation to the financial statements included within the 2022/23 HYEFU.

The update incorporates the fiscal and economic implications both of government decisions and circumstances as at December 2022 that were communicated to me, and of other economic and fiscal information available to the Ministry in accordance with the provisions of the *Ministry of Finance and Economic Management Act 1995-96*.

As Financial Secretary, I accept full responsibility for the integrity of the information provided.

Kia manuia,

A handwritten signature in blue ink, appearing to read 'G Henderson', written over a white rectangular background.

Garth Henderson

Financial Secretary

1 Introduction and Overview

The Half Year Economic and Fiscal Update (HYEFU) outlines the revisions to the economic and fiscal forecasts that underpin the 2022/23 Budget, including the 2021/22 actual expenditure.

Government's fiscal performance for 2021/22 has been revised with an improvement in operating revenue of \$5.2 million partially offsetting an upward revision in operating expenditure of \$6.8 million, and once other fiscal factors are accounted for, results in a fiscal deficit of \$34.9 million.

Forecasts for 2022/23 indicate an increased fiscal deficit of \$43.5 million due to a decrease in Government revenue of \$7.8 million exceeding a reduction in expected expenditure of \$4.5 million. Increased fiscal surpluses are projected in 2024/25 and 2025/26 due to recovery in GDP leading to increased tax revenues.

The HYEFU also updates the government's Medium-term Fiscal Strategy (MTFS) for 2023/24 to 2026/27. The MTFS guides the Government's fiscal planning and anticipated expenditure profile over the medium-term, including projected performance against the Fiscal Responsibility Rules.

The 2023/24 MTFS provides for increases in expenditure over the medium-term, however the focus of additional spending remain on supporting economic recovery and responding to inflationary pressures. Increased expenditure in response to inflationary pressures and necessary economic stimulus must be carefully balanced against projected cash reserves.

These economic and fiscal forecasts have been developed within the context of early stages of recovery from the severe recession triggered by the economic shock of the COVID-19 pandemic, underpinned by a recovery in tourism volumes. Early signs in the recovery are encouraging, however the reliance on New Zealand as the key driver of tourism arrivals poses a vulnerability.

The updated economic and fiscal estimates indicate that the triggers for the use of the Exit Clause have passed, and therefore the fiscal rules again provide limiting factors to Government's expenditure plans over the medium-term.

Forecasts indicate that the Cash Reserves Rule may be breached in 2023/24, temporarily falling below the one-month reserve level, but remaining positive. This forecast relies on revenue and expenditure remaining in line with assumptions. The remaining fiscal rules are forecast to be met. Should these assumptions deteriorate, measures to avoid depleting the forecast cash reserves may be necessary as the 2023/24 Budget is prepared.

External economic conditions are beginning to stabilise; however, the risk of further shocks remains, including global inflationary pressures and interest rate responses (particularly in the New Zealand economy), global logistics delays, oil price volatility due to the war in Ukraine, and the reduced, but ongoing potential for new variants of concern of COVID-19 impacting tourism.

The assumptions underpinning the economic and fiscal forecasts are detailed in this report and consist of information known at the time of publication, and are considered to be conservative. The Ministry of Finance and Economic Management continues to monitor developments and will continue tailoring its responses as the situation further develops.

2 COVID-19 Special Note

The Cook Islands economy saw continued disruption in 2021/22 as a result of the COVID-19 pandemic. In response to the re-emergence of COVID-19 in New Zealand, the border was closed from 17 August 2021 to 13 January 2022. This directly impacted the tourism-oriented private sector in the Cook Islands, with a reduction in tourist volumes affecting business viability and employment, with flow-on effects to the wider economy and to Government revenues.

The Cook Islands detected its first case of COVID-19 in the community on 15 February 2022. By mid-September 2022, Rarotonga recorded over 5,100 positive cases and the Pa Enua recorded over 1,200 cases, with one death and two cases requiring hospitalisation.

The arrival of the Omicron variant in the community led to rapidly changing public health requirements, which directly impacted the delivery of both public and private services while staff were in quarantine/isolation. As the COVID peak passed in Rarotonga and subsequently the Pa Enua, public health requirements eased. Visitor numbers increased from 3,100 in February 2022 to 14,800 in July 2022. This allowed for the end of business support measures mid-April 2022, and a shift of focus towards recovery measures through the Economic Recovery Roadmap (ERR).

Now the Cook Islands focus has shifted from response to recovery, this will be the final COVID-19 Special Note included in the Cook Islands Budget documents. For more information on the government's programmes to drive economic recovery, please refer to MFEM's website¹.

2.1 Fiscal Response

The Government has temporarily departed from the Fiscal Rules from the 2019/20 Supplementary Budget in order to implement expenditure measures such as the Economic Response Plan (ERP) and the Economic Recovery Roadmap (ERR), which would otherwise push expenditure beyond the Medium-term Fiscal Strategy's (MTFS) expenditure ceiling.

In response to the changes in the Cook Islands' economic context, with increased debt levels and reduced Government revenues, the Fiscal Rules were revised in October 2021 and are applicable to the MTFS 2023/24 – 2026/27.

To mitigate the fiscal impacts of Government's response to COVID-19, Government has deferred most new initiatives and reprioritised operational funding to support core work programs and other critical expenditure, including economic recovery initiatives. Government currently maintains two administered funding lines to respond to the Cook Islands' evolving health and economic needs, described in further detail below:

- COVID-19 Medical Response Fund
- Economic Recovery Roadmap (ERR).

Government has determined that expenditures through these administered funds will be treated outside of the MTFS expenditure ceiling for 2022/23.

2.1.1 COVID-19 Medical Response Fund

The COVID-19 Medical Response Fund provides support to respond effectively to emerging health and border control needs to prevent, mitigate and limit the spread of COVID-19 within the Cook Islands.

A breakdown of the total actual expenditure to date is presented in Table 2-1.

¹ <http://www.mfem.gov.ck/economic-planning/covid-19-err>

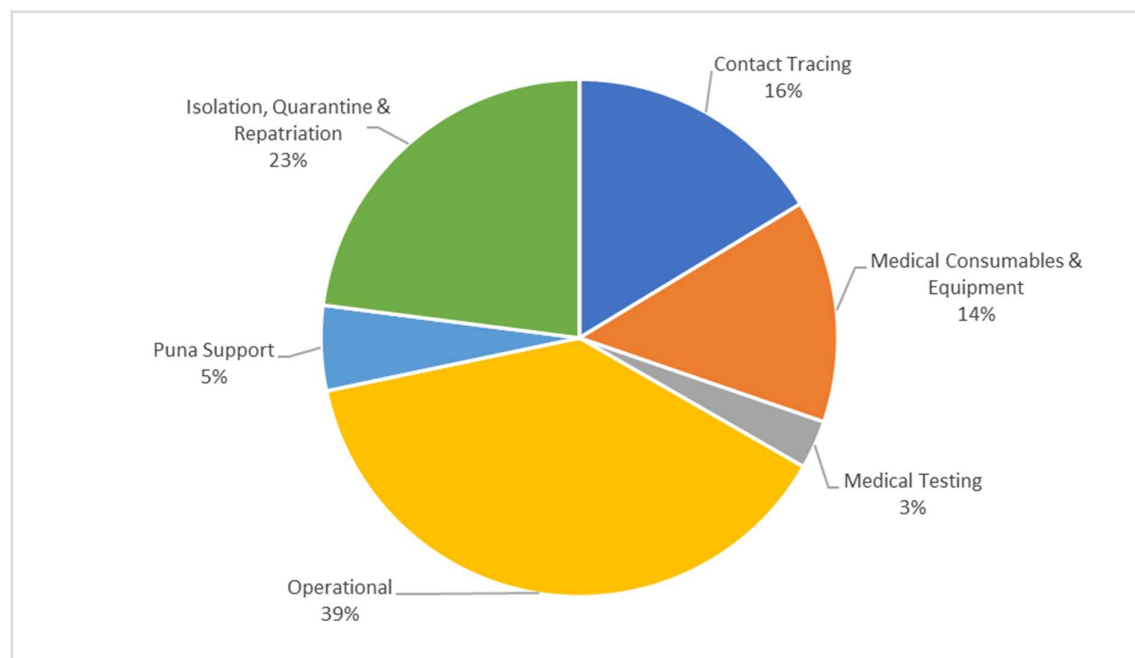
The largest cumulative expenditure to date has been toward Operational costs, which included personnel costs, communication, vaccination and other associated costs incurred to support the Cook Islands' COVID-19 health response.

Table 2-1 COVID-19 Medical Response Fund expenditure (\$'000)

Administered Funds	2020/21	2021/22	2022/23*	Total
Contact Tracing	610	348	0	958
Medical Consumables & Equipment	714	104	0	818
Medical Testing	178	0	0	178
Operational	675	1,294	285	2,254
Puna Support	254	58	0	312
Isolation, Quarantine & Repatriation	80	1,191	77	1,348
Social Benefits	0	0	0	0
Total Operating Expenditure	2,511	2,995	362	5,868

* 2022/23 Actuals as at 30 November 2022 (excludes committed expenditure).

Figure 2-1 Cumulative breakdown of COVID-19 Medical Response Fund Expenditure



In addition to the COVID-19 Medical Response Fund, a capital funding line was provided to help facilitate capital purchases and projects required for the health sector to respond to COVID-19. A breakdown of total actual capital expenditure for the Fund to date is presented in Table 2-2. The focus of this expenditure in 2022/23 was purchase of the TMO Pharmacy Extension and IT Storage Facility.

Table 2-2 COVID-19 Medical Response Fund (Capital) Expenditure (\$'000)

Capital Expenditure	2020/21	2021/22	2022/23*	Total
Medical Equipment	99	166	0	265
Facility Outfit	0	128	0	128
Health IT & Pharmacy Extension	0	0	584	584
Airport & Health Readiness	0	0	8	8
Total Capital Expenditure	99	294	592	985

*2022/23 expenditure is actual and forecast expenditure to 30 June 2023.

2.1.2 Economic Recovery Roadmap

From July 2021, the Economic Recovery Roadmap (ERR) replaced the Economic Response Plan (ERP) as the government's primary vehicle to drive the Cook Islands' economic recovery. The ERR:

- provides support for economic stimulus and reform measures,
- continued response measures designed to support businesses and households during the pandemic,
- finalises several longer-term programmes that were carried forward from the ERP, including grant payments and the Business Continuity Credit Facility (BCCF).

The overall objective of the ERR is to grow the Cook Islands' GDP to pre-COVID levels (around \$550 million), and towards the path we would have been on pre-COVID by 2025.

The border closures and public health requirements relating to the Omicron outbreak in New Zealand and the Cook Islands resulted in the majority of ERR funds that were appropriated for 2021/22 being spent on continued ERP support measures. This included transfers from other appropriations including the Airline Underwrite, and carried-forward from the ERP appropriation.

ERR expenditure from 2022/23 is focused on measures to support economic growth. A breakdown of forecast actual and budgeted ERR expenditure to 30 June 2023 is presented in Table 2-3.

Table 2-3 Economic Recovery Roadmap Expenditure (\$'000)

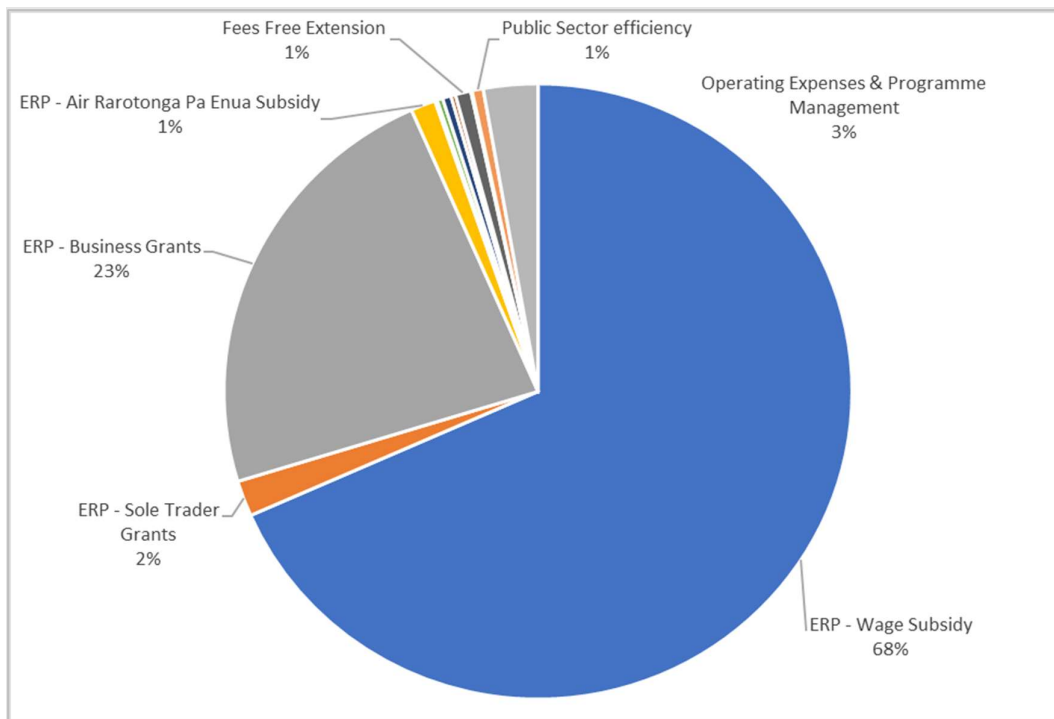
Expenditure / Workstream	2021/22	2022/23*	Total
ERP - Wage Subsidy	29,425	0	29,425
ERP - Sole Trader Grants	807	0	807
ERP - Business Grants	9,944	0	9,944
ERP - Air Rarotonga Pa Enea Subsidy	550	0	550
ERP - SMART Economy	50	0	50
ERP - SMART AgriTech	125	0	125
Total Continued ERP Measures	40,901	0	40,901
Isolation Support Payments	160	31	191
Productivity Growth	0	100	100
Fees Free Extension	223	123	346
Labour force and population	24	3	27
Foreign investment	0	0	0
Cost of borrowing	0	0	0
Barriers to Business	0	0	0
Public Sector efficiency	0	248	248
Operating Expenses & Programme Management	1,099	105	1,204
Airline Underwrite Fuel Reserve	0	0	0
Total ERR Measures	1,506	610	2,116
Total ERR Expenditure	42,407	610	43,017

*2022/23 actuals as at 30 November 2022 (excludes committed expenditure)

The Airline Underwrite Fuel Reserve is a reserve of funds set aside to provide additional support to the Airline Underwrite in the event that fuel costs required additional funds during the 2022/23 fiscal period. This fund has been placed within the ERR as the implementation and support of air-route development through the Airline Underwrite is important for short-term economic recovery. With airline agreements now entered into, this is not expected to be expended in 2022/23, and as such has been treated as an underspend or saving in 2022/23.

Figure 2-2 sets out the cumulative expenditure of the ERR funds to date. Approximately 93 per cent of total ERR expenditure was on the ERP measures of the Wage Subsidy (68%), Sole Trader Grants (2%) and Business Grants (23%).

Figure 2-2 Cumulative breakdown of ERR Expenditure to 30 November 2022



2.2 Debt Funding

Debt funding has been used to supplement Government’s resources in the 2022/23 – 2025/26 Budgets. Total debt drawn down in 2021/22 was \$55.5 million from the Asian Development Bank (ADB). This takes total debt drawn down in response to the economic shock of COVID to the equivalent of \$134.6 million², with \$63.4 million requiring repayment by 2030 and the remainder by 2036.

Two additional loans have been agreed with the ADB but remain undrawn, with specific triggers in place in order to draw on these additional loans.

1. Disaster contingency loan of \$30.3 million that will only be drawn in the event of disasters triggered by natural hazards or health emergencies.
2. Precautionary financing loan of \$55.5 million to support government’s cashflow if pre-established conditions are met and government chooses to draw this down.

Debt funding requirements and Government finances are explained in Chapter 7.

2.3 Official Development Assistance

The Cook Islands Government acknowledges its aid partners for their ongoing support towards our economic and health response to COVID-19. Table 2-3 summarises the support received from aid partners since March 2020 for the Cook Islands’ COVID-19 response. Further details are provided in Chapter 0.

The majority of assistance provided to the Cook Islands has been in the form of New Zealand Government grant funding as General Budget Support to support the Economic Response Plan and Economic Recovery Roadmap.

² \$101.6 million of this is in NZD, the remaining amount (\$32.9 million) is a US\$20 million loan.

The Cook Islands Government particularly acknowledges the \$50.0 million in budgetary support and \$40.0 million in capital investment funding³ that New Zealand provided in 2021/22.

Table 2-4 Summary of Official Development Assistance related to COVID-19 (\$NZD)

Development Partner	Instruments	2019/20	2020/21	2021/22	2022/23	Total	
New Zealand Government	Financial Support	7,000,000	35,013,992	50,000,000	-	92,013,992	
	Vaccination Support	-	-	166,193	50,000	216,193	
	RAT Kits	-	-	522,479	8,343	530,822	
	Materials & Equipment	-	261,688	33,586	-	295,274	
	Total	7,000,000	35,275,680	50,722,258	58,343	93,056,281	
Australian Government	Financial Support	604,308	-	-	-	604,308	
	Materials & Equipment	-	12,147	-	-	12,147	
	Total	604,308	12,147	-	-	616,455	
People's Republic of China	Financial Support	-	82,658	50,000	-	132,658	
	Materials & Equipment	-	185,778	-	-	185,778	
	Total	-	268,436	50,000	-	318,436	
Japan	3rd Party spend	-	1,546,100	-	-	1,546,100	
	Materials & Equipment	-	1,418,452	-	-	1,418,452	
	Total	-	2,964,552	-	-	2,964,552	
ADB	3rd Party spend	-	560,606	-	-	560,606	
	Grant	-	4,400,000	-	-	4,400,000	
	Technical Assistance	-	393,216	-	-	393,216	
	Total	-	5,353,822	-	-	5,353,822	
ILO	Grant	-	67,394	-	-	67,394	
UNICEF	RAT Kits	-	172,036	123,982	4,154	300,172	
WHO		-	14,078	188,063	62,322	264,463	
Jack Ma Foundation	Materials & Equipment	-	351,663	-	-	351,663	
Mr Stemm		-	106,609	-	-	106,609	
The Pacific Community (SPC)		-	-	35,130	-	35,130	
UNFPA		-	1,697	-	-	1,697	
US Embassy - Wellington		-	-	299,506	-	299,506	
Zero COVID Thailand		-	-	48,402	-	48,402	
Category Totals		Grant / Financial Support	7,604,308	39,564,044	50,050,000	-	97,218,352
		Materials & Equipment	-	2,338,034	416,624	-	2,754,658
	Technical Assistance	-	393,216	-	-	393,216	
	3rd Party spend	-	2,106,706	-	-	2,106,706	
	Vaccination and RAT Kits	-	186,114	1,000,717	124,819	1,311,650	
GRAND TOTAL		7,604,308	44,588,114	51,467,341	124,819	103,784,582	

³ According to the terms of the funding agreement the capital investment funding of \$40.0 million is not specifically related to the COVID-19 response.

3 Medium-term Fiscal Strategy 2023/24 – 2026/27

This chapter sets out the Cook Islands Government’s Medium-term Fiscal Strategy (MTFS) for the period 2023/24 to 2026/27. The MTFS serves as the 2023/24 Budget Policy Statement, confirming the Government’s commitment to sound fiscal and economic management within the context of a gradual recovery from the severe global and domestic economic shock of COVID-19 on the Cook Islands’ economy.

The MTFS aims to deliver fiscally sustainable budgets. To achieve this, the government commits to:

- Adhering to the fiscal rules on cash reserves, debt, expenditure growth and investment.
- The development of, and appropriation into, reserve funds (Stabilisation Account and Sovereign Wealth Fund) to ensure that excess revenues are saved for periods of economic downturn or natural disasters, and for future generations.
- An expenditure profile that is steered by the economic context, through the use of internal guiding principles.

The government’s fiscal strategy is underpinned by the following policy elements:

- Investing in the capabilities of government agencies to ensure they operate effectively and efficiently.
- Investing in infrastructure that will ensure the sustainability of economic growth and the resilience of the economy to climate change.
- Increasing revenue without increasing the tax burden on society, through economic growth and by ensuring that tax legislation is enforced in an equitable manner.

The scale of the economic shock experienced by the Cook Islands during the COVID-19 pandemic resulted in the temporary departure of the fiscal rules and the utilisation of reserve funds to achieve an expenditure profile which responds to the current economic context. The temporary departure from the rules is expected to cease in the 2023/24 fiscal year as the economic conditions improve.

The government is committed to the expenditure profile set out in Table 2-1 over the medium-term, with the fiscal space indicating the amount of additional expenditure, or reduction in expenditure, that the government can undertake in each year.

In determining the recommended expenditure profile for the MTFS, the Ministry of Finance considers two fiscal space measures, both consistent with the MTFS fiscal rules:

- the structural deficit ceiling approach, which estimates the difference between the structural fiscal balance and nominal fiscal balance, and;
- the cyclically-adjusted balance method, which accounts for the effect of business cycle fluctuations on revenue and expenditure.

The government then adopts a budget ceiling which provides a fiscally responsible level of fiscal space while acknowledging the investment needs of the country, in the context of the economic situation and the fiscal rules.

Table 3-1 Medium-term Expenditure Ceilings (\$ Million)

\$ million	2023/24	2024/25	2025/26	2026/27*
Current expenditure planned (MTFS 2022/23)	192.7	190.8	190.0	190.0
Current Expenditure planned total	197.1	193.9	191.2	191.2
Fiscal Space	2.8	14.0	20.0	20.0
Total expenditure ceiling – 2023/24 Budget	195.5	204.8	210.0	210.0
Fiscal Space vs 2022/23 planned total	-1.6	10.9	18.8	18.8

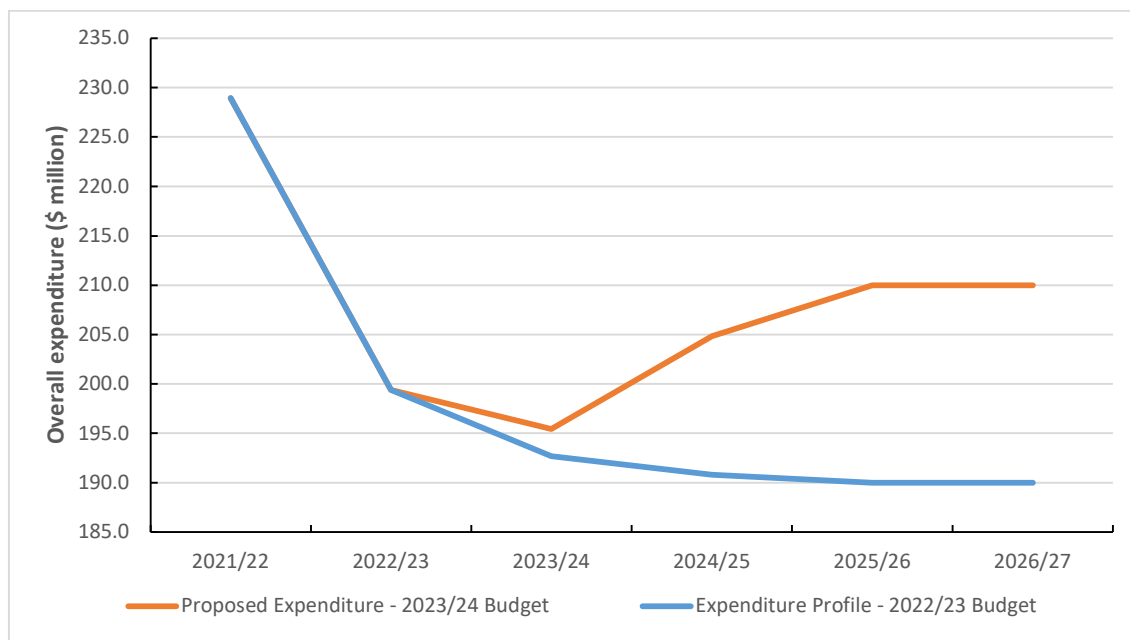
* Expenditure values in the new outer year are rolled forward from the previous outer year, now 3rd year, of the MTFS.

The expenditure limits will rise from the levels previously planned in the 2022/23 Budget. This is based on technical assumptions around revenue, which lead the Cash Reserves levels to rise above the emergency one-month level in all years. The expenditure profile changes are shown in Figure 3-1. The expenditure shown throughout this HYEFU includes the legal commitments (such as debt servicing and welfare recipient number changes) which will take up all of the \$2.8 million in fiscal space shown in 2023/24.

In the 2022/23 budget, the Exit Clause was applied to give an exception to a limited number of expenditures that addressed COVID-19 economic and medical response measures and debt servicing requirements. The total forecast expenditure inclusive of the excepted funds is reflected in Table 3-1 as the 'Current Expenditure planned total'. These previous exceptions beyond the expenditure ceiling are now captured within the expenditure ceiling of the MTFs, with the adjusted fiscal space shown.

In order to maintain this ceiling, in preparing the 2023/24 budget, government will prioritise core services and transfer budget between outputs and agencies to maximise efficiency in meeting its ongoing deliverables, as well as consider the fiscal implications of any new initiatives.

Figure 3-1 Expenditure Profile Shift through MTFs (\$'000)



3.1 MTFs Economic and Fiscal Forecasts

3.1.1 Economic Forecast

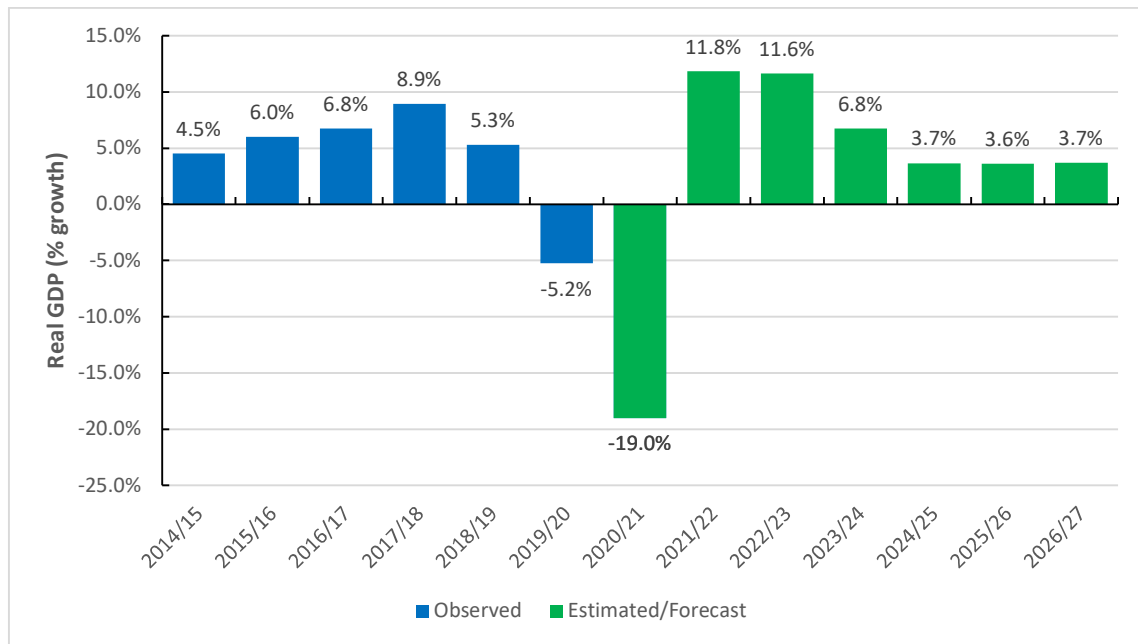
The 2020/21 year saw the largest economic shock the Cook Islands economy has ever recorded, with an estimated reduction in economic activity of 18 per cent in real (inflation-adjusted) terms⁴. The 2021/22 year saw the early signs of recovery, with the initial six weeks of the year having travel access to New Zealand, before the 'travel bubble' closed in August 2021, with borders finally re-opening for good in January 2022. This is estimated to result in growth of 11.8 per cent for 2021/22, with this forecast to remain around 11.6 per cent in 2022/23.

⁴ Some technical issues mean the outcome for the 2020/21 year in Real GDP is not yet known.

Growth in the 2022/23 year is underpinned by being the first full year without border closures, and with strong growth from tourism out of New Zealand. This is slightly tempered with access to non-NZ markets being restricted until mid-2023, but the return of tourists has been robust thus far.

Over the forward years, this growth is expected to moderate with 6.8 per cent in 2023/24 before falling back to more historically 'normal' levels, with 3.7 per cent growth in 2024/25 and 3.6 per cent growth in 2025/26. The recovery is slightly constrained due to the impacts of inflationary pressures, which, driven by global factors, have made themselves felt in the Cook Islands.

Figure 3-2 Annual real GDP growth



3.1.1.1 MTFS Expenditure Profile

As the Cook Islands economy transitions from the emergency to the recovery phase of the pandemic-induced recession, this has seen a change in the level of government expenditure as well. This has meant an end to large-scale support and stimulus measures such as the Economic Response Plan (including wage subsidy, business grants and interest relief support, amongst other measures).

As these large expenditures have finished, government is careful to not reduce expenditure too dramatically while the recovery is still in its early stages. To support this, non-emergency expenditure is largely maintained, with key capital projects being rolled out as it is expected it will take the private sector some time to recover and be able to invest in capital improvements.

Government expenditure will continue to focus on investment in infrastructure and capabilities of government agencies to operate effectively and efficiently, however, this will be managed conservatively within the context that no new funding will be available once government's legal commitments are met. Therefore, the reprioritisation of existing funding is important and may result in the shift or transfer of funding from one agency to another.

Funding for new programmes will be prioritised against the need for agencies to focus on the delivery of core services to the community, and the achievement of government priorities. This is expected to result in the continued deferral of new initiatives.

The government-wide salary increases will remain on hold in 2023/24, however as fiscal space increases in the forward years the priority of responding to inflationary pressures on the government

payroll and meeting recruitment and retention challenges will require an adjustment, with the fiscal impacts of implementing an adjustment from 2024/25 to be assessed in the preparation of the 2023/24 budget. The fiscal impact has previously been assessed at \$5.0 million.

3.1.2 Fiscal Responsibility Rules

The Fiscal Rules have been developed as benchmarks for the government, to achieve fiscally sustainable budgets. The rules were revised in 2021 to more accurately reflect the fiscal context of the COVID-19 economic environment, with a revised focus on government's fiscal liquidity. It is envisaged that the Fiscal Rules will be reviewed again as the economic situation improves.

In forming the rules, guidance from the International Monetary Fund (IMF) on the criteria for rule development has been considered as follows:

- Sustainability: compliance with the rule should ensure long-term debt sustainability.
- Stabilisation: following the rule should not increase (and may decrease) economic volatility. The principle of stabilisation ensures that automatic stabilisers are able to operate.
- Simplicity: The rule should be easily understood by decision makers and the public.
- Operational guidance: it should be possible to translate the rule into clear guidance in the annual budget process.
- Resilience: A rule should be in place for a sustained period in order to build credibility, and it should not be easily abandoned after a shock.
- Ease of monitoring and enforcement: compliance with the rule should be easy to verify, and there should be costs associated with deviations from the targets.

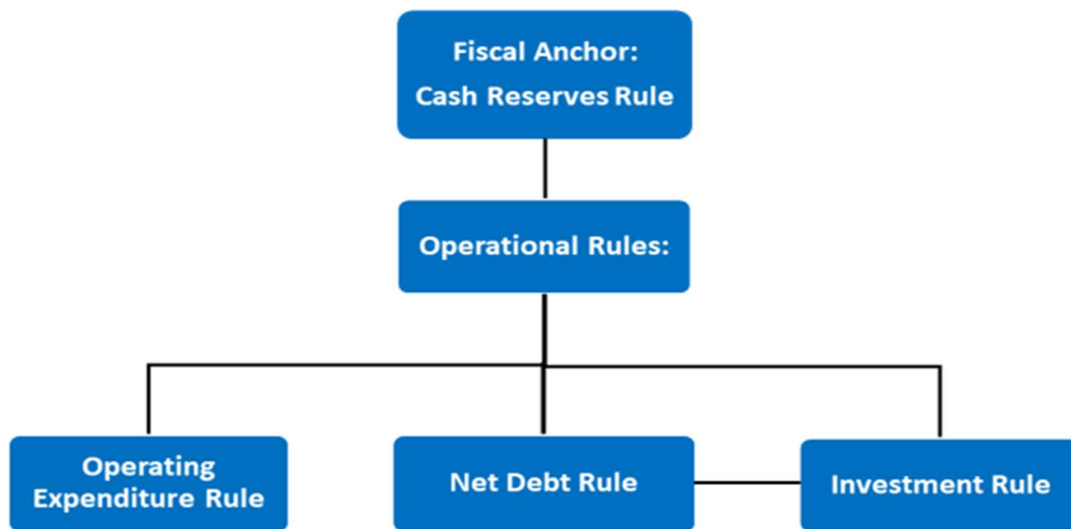
The *Resilience* criterion has been considered in reviewing the revised Fiscal Rules, however the scale and duration of the economic shock of COVID-19 is such that retention of the existing rules would be inconsistent with the economic outcomes intended. The revised structure is expected to be in place throughout the medium-term, with the primary trigger for a further review of the rules being a substantially changed economic environment resulting in sustained positive fiscal balances annually.

The Fiscal Rules are structured around the fiscal anchor which is linked to the objective of the fiscal strategy, fiscal sustainability. This rule is used to guide the development of three operational rules. This structure has been maintained whilst utilising the revised rules.

Too many rules can complicate fiscal policymaking and result in overlap and inconsistency of targets. As such, selected rules need to minimise the trade-off between the above criteria.⁵ Based on these criteria, the rule structure set out in Figure 3-3 has been adopted.

⁵ IMF, 2018a. [Fiscal Policy- How to select fiscal rules: a primer](#). Fiscal Affairs Department, International Monetary Fund, Washington. March 2018.

Figure 3-3 MTFS rule structure



The four fiscal rules and expected performance against these fiscal rules are listed below:

- **Cash Reserves Rule (Fiscal Anchor):** the equivalent of 3 months of operating expenditure must be held in liquid assets at any one time, with an absolute floor of 1 month available at any time.
- **Expenditure Rule:** operating expenditure cannot grow by more than the greater of 2 per cent or the average of the past two-year growth in the Consumer Price Index (CPI) year-on-year.
- **Net Debt Rule:** net debt should not exceed a soft cap of 55 per cent of GDP and cannot exceed a hard cap of 65 per cent of GDP.
- **Investment Rule:** any additional borrowing above 55 per cent Net Debt of GDP is for capital investment and/or targeted GDP stimulus measures only.

Prudency

The government's aim in the development of the Fiscal Rules is to ensure fiscal prudency - spending within revenues and use of sustainable debt when required. As such, in determining the rules, rounding has been applied to ensure that prudency is reinforced.

Exit clause

The MFEM Act 1996 has an *Exit Clause* that allows for a temporary departure from the fiscal rules, including periods of severe economic shock, to enable a government stimulus response to boost the economy. The government agrees to always abide by the fiscal anchor and operational rules, with two exceptions. The government may breach these rules only in the event of a natural disaster (and subsequent calling of a state of emergency), or a severe economic shock (defined as real economic growth of negative 2 per cent or less).

The economic shock resulting from COVID-19, with GDP falling by 5.2 per cent in 2019/20 and estimated to have fallen by a further 18.0 per cent in 2020/21, triggered the temporary departure from the fiscal rules in 2020/21 and 2021/22.

With the economic situation having changed considerably since before the pandemic, the Fiscal Rules were revised to fit the new economic context in 2021. Government subsequently met the Investment Rule, Expenditure Rule and Net Debt Rule by the end of the 2021/22 fiscal year, and will continue to.

The Cash Reserves Rule is highly dependent on revenue and expenditure variables, and is currently expected to be met at the 1-month, 'emergency' level in 2022/23, while building cash reserves over the forward years to rebuild the buffers utilised. If cash reserves estimate at the 2023/24 Budget remain below the emergency levels, then further restraint will be needed, and a revision to the MTFS

may be undertaken. Expenditure reductions identified in the 2022/23 fiscal year, described in the Fiscal Update, are included in the MTFS calculation.

Government will continue to measure and publish performance against the rules in the Annual Budget releases.

3.1.2.1 MTFS Cash Reserves Rule

For prudential reasons, the government requires a level of cash reserves to be on hand at all times, to act as a buffer in case of a liquidity shortage resulting from an economic shock or natural disaster. For example, if a large cyclone were to impact Rarotonga, and cause a halt to tax collections, the government would require a level of cash to be held in reserves to cover operations.

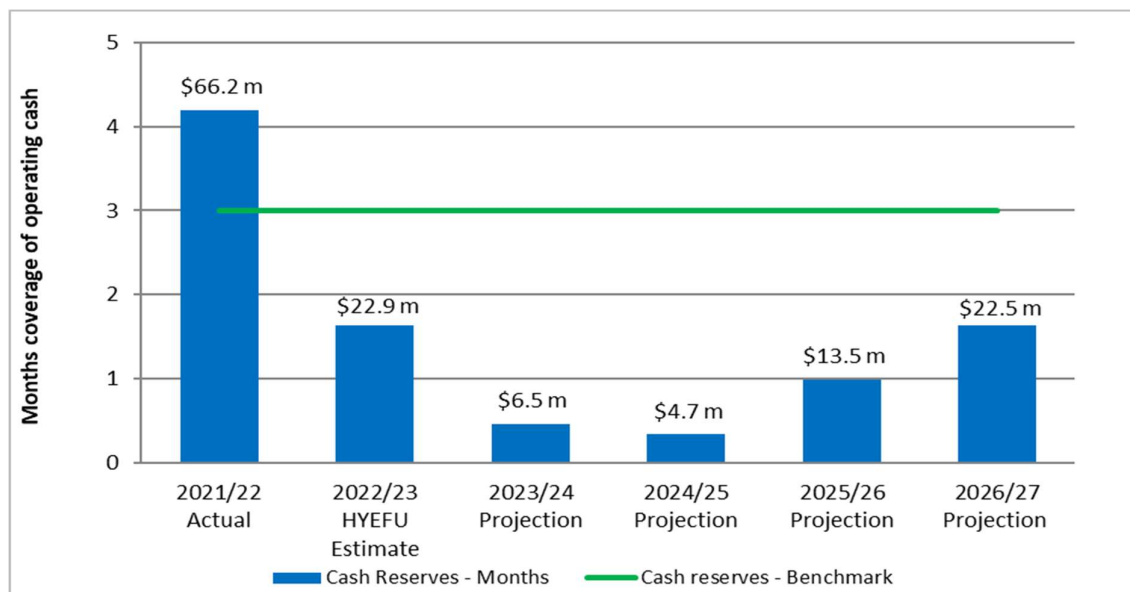
A prudent level of cash reserves is considered to be three months of operating expenditure, either available as cash or liquid cash investments, while one month of operating expenditure is considered to be an emergency-level of cash reserves.

The government’s cash reserve is expected to reduce below one month’s coverage over the forward years, before recovering in 2026/27 (Figure 3-4). This is closely monitored and if these estimates are confirmed additional fiscal restraint may need to be utilised.

Capital expenditure has been considered in calculating the cash reserve profile, while some sources of funding have not yet been – which contributes to the tightness of this profile.

Revenue and expenditure levels are the determinant on forward cash reserves, with additional revenue or under-expenditure resulting in improvements to cash reserves. Conversely, revenue levels below forecasts reduce the forward cash reserves. Once cash reserves exceed 3 months of coverage, transfers to the Stabilisation Account will re-commence.

Figure 3-4 Cash Reserves rule projections



3.1.2.2 MTFS Operating Expenditure Rule

The expenditure rule states that the “baseline budgeted operating⁶ expenditure cannot grow by more than the greater of 2 per cent or the average of the past two years growth in the Consumer Price Index

⁶ Operating expenditure is defined as total government expenditure, excluding capital investment, loan principal repayment amounts and Official Development Assistance.

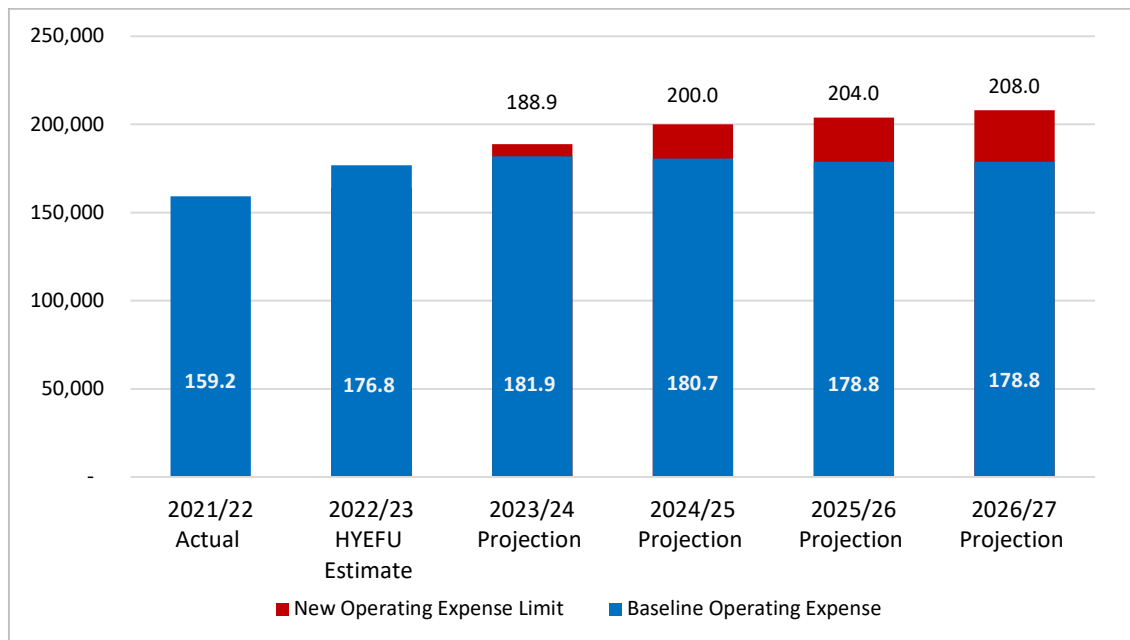
(CPI) year-on-year⁷.” The operating expenditure rule controls growth in government expenditure by limiting year-on-year growth whilst allowing for a response to inflationary pressure if required. The rule limits expansion of operating expenditure during periods of increasing fiscal expenditure, but is superseded by other rules during periods of fiscal contraction.

The operating expenditure rule limits year-on-year growth to a maximum of 6.8 per cent in 2023/24 (as inflation over 2021/22 and 2022/23 is forecast to average 6.8 per cent, above the 2 per cent default limit). As inflation moderates over the forward years the rolling average CPI is projected to fall below 2 per cent from 2025/26, slowing the expenditure rule growth.

The operating expenditure profile for 2023/24 (taken from the 2022/23 Budget) will be within the limit across the forward years (Figure 3-5). Through the 2023/24 Budget process, some of this space may be utilised to address pressures and government priorities in the forward years.

This low growth in operating expenditure is a reflection of fiscal restraint aside from the stimulus measures employed through the Economic Response Plan (ERP) and Economic Recovery Roadmap (ERR), which were the largest components of expenditure in 2020/21 and 2021/22.

Figure 3-5 Operating Expenditure rule growth projections



3.1.2.3 MTFs Net Debt Rule and Investment Rule

The Net Debt rule states that “Net debt should not exceed a soft cap of 55 per cent of GDP, and cannot exceed a hard cap of 65 per cent of GDP”. The Investment Rule also relates to the net debt position, as it states “the government shall commit that any additional borrowing once debt has reached 55 per cent of GDP is for capital investment and/or targeted GDP stimulus purposes”.

Net debt to GDP measures debt relative to national income, and the Net Debt rule is intended to control the overall level of debt taken on by government, including state-owned enterprises. The limit agreed to by government is to maintain net debt within 55 per cent of GDP, with room to increase this to 65 per cent for prescribed purposes.

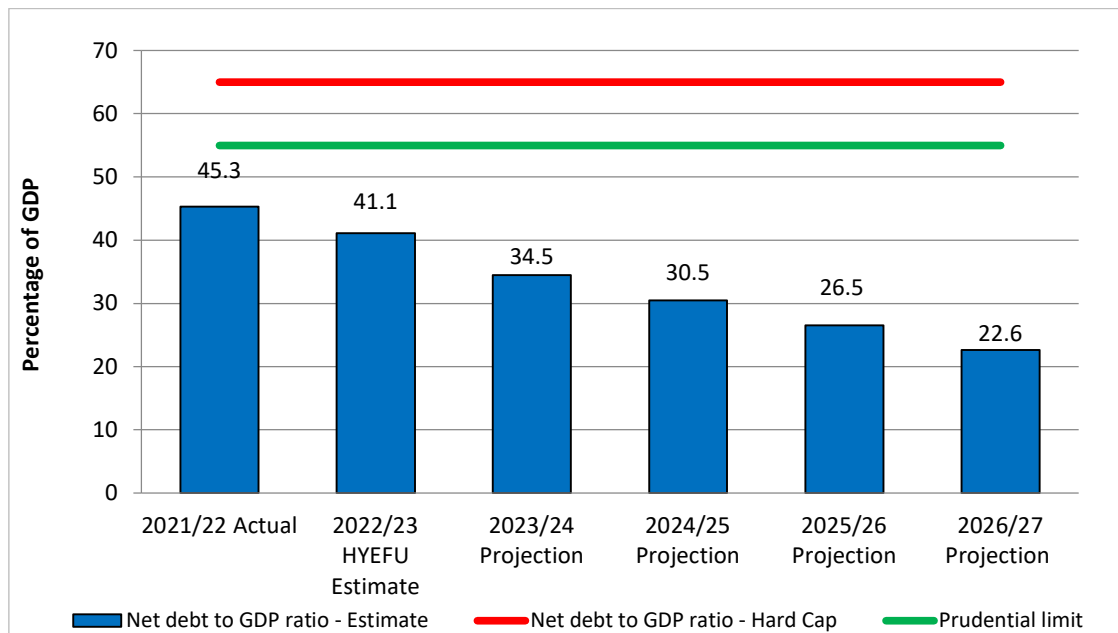
⁷ The 2% or Average CPI adjustment is applied as a rolling calculation, each year calculated on the year prior, typically resulting in an upward curve.

Further revisions have been made to the GDP forecasts and foreign exchange rates since the 2022/23 Budget which have resulted in the 55 per cent soft cap on borrowings to be estimated at \$266.2 million at June 30 2023. Government anticipates that it will hold the NZD equivalent of \$218.3 million of debt at the end of 2022/23, with changes in the value of this debt largely due to movements in foreign exchange rates.

Government has a further \$55.54 million in contingent financing available until December 2024 in case of an emergency need for funds, as well as a \$30.3 million disaster contingency loan in the case of a natural disaster. If these are drawn down in the 2022/23-year, gross debt would be approximately \$313 million, and net debt would total 57.3 per cent of GDP. Excluding contingent loans, the net debt ratio is projected to fall to 22.6 per cent by 2026/27, initially due to GDP growth, with increasing principal repayments subsequently continuing the reduction in net debt as GDP returns towards historic levels and growth slows.

These ratios should not be looked at in isolation. Any proposal to take on additional debt should be looked at in the context of the whole of the budget, the Crown’s ability to pay annual debt servicing, and international best practice. The latter aspect includes prudential requirements set by the Crown’s lenders. Proposals to take on new loans must be assessed under transparent processes as required by the MFEM Act 1995/96 and the Loan Repayment Fund Act 2014.

Figure 3-6 Net Debt rule projections



The evolution of the Net Debt limits to GDP and the Investment Rule debt headroom are displayed in Figure 3-7 and Figure 3-8 respectively.

Figure 3-7 GDP and Net Debt Movements (\$million)

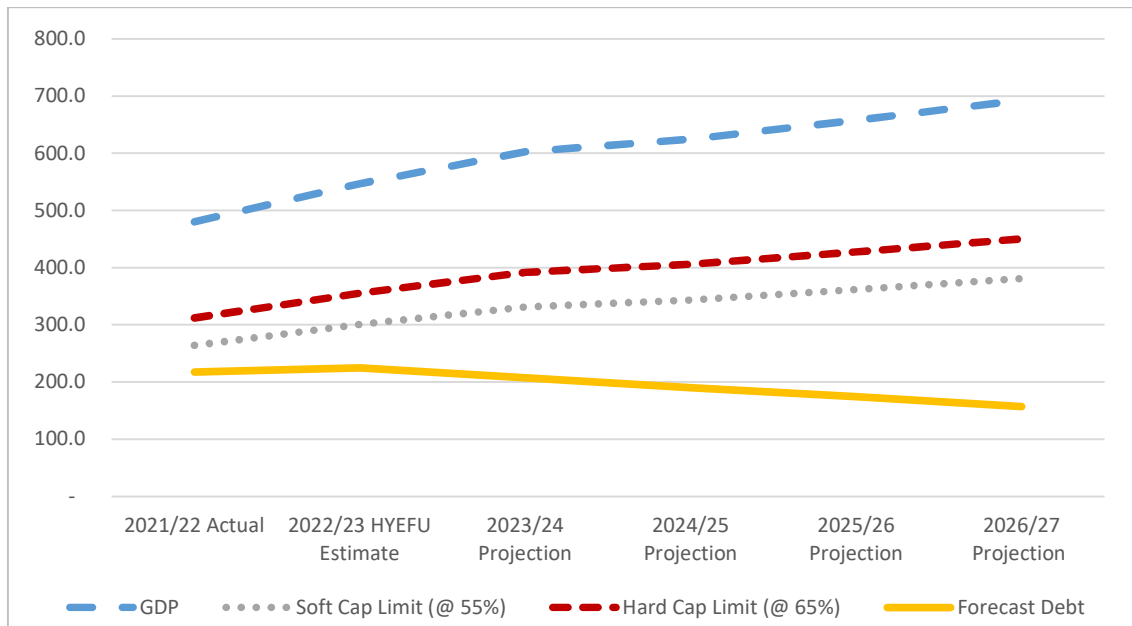
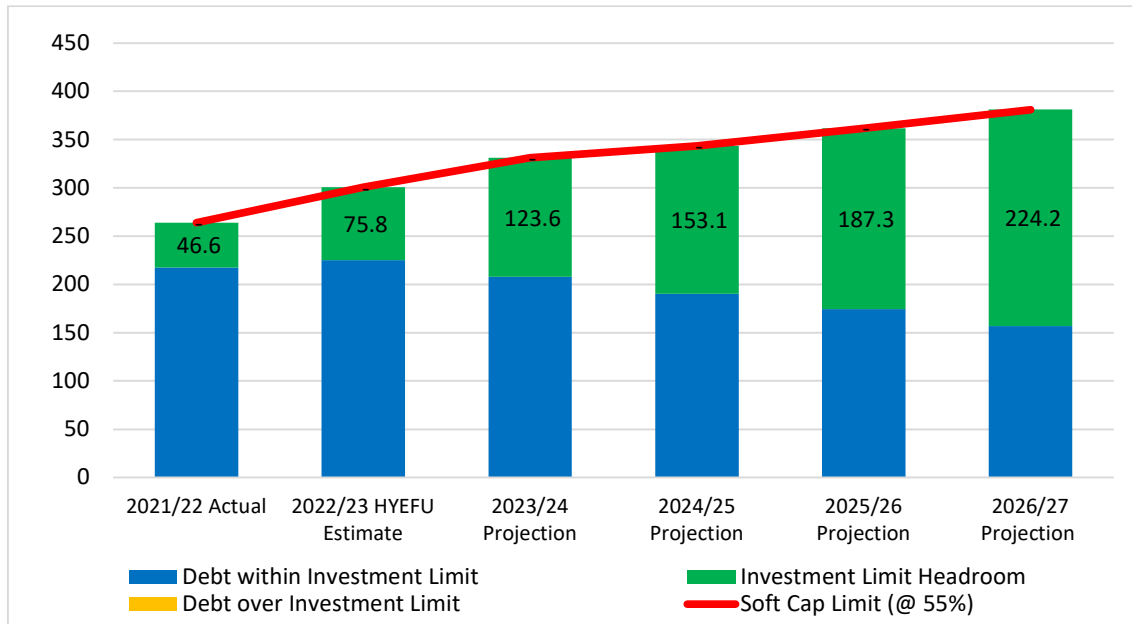


Figure 3-8 Investment Rule Debt Headroom (\$ million)



3.2 Medium-term National Priorities

The MTFs incorporates the Medium-term National Priorities to align the fiscal planning with the achievement of national priorities. The national priorities are set using the National Sustainable Development Plan (NSDP) of the National Sustainable Development Agenda (NSDA) 2020+, which captures the Cook Islands’ aspirations and ambitions under 16 national development goals and helps to guide the application of the Medium-term Expenditure Ceilings (MTEC) at government department level.

While the NSDP is referenced in the MTFs, its use as an expenditure guide will remain reduced in 2023/24 as the overriding priority remains Goal 2, Economic Opportunity, to reduce the size and

severity of the economic impact of COVID-19 to the Cook Islands in the context of limited fiscal space for investment.

3.2.1 Economic Development Strategy 2030 and Economic Recovery Roadmap

The Ministry of Finance and Economic Management (MEFM) developed the Economic Development Strategy (EDS) in 2019 with extensive public consultation in both Rarotonga and the Pa Enua. It is intended to complement the NSDA by providing a clear guideline to achieving the Cook Islands' economic goals through to 2030. Following a delay due to MFEM's necessary focus on delivering the government's Economic Response Plan (ERP), the EDS was released in January 2021.

The EDS sets out five objectives within the overarching vision of working together to build a dynamic, prosperous and inclusive economic future for Cook Islanders that is in harmony with its culture and environment:

1. Improving equity and access for all,
2. Transforming the economy,
3. Developing our people & culture,
4. Investing in our Islands,
5. A greener economy.

The ERR was prepared to address the Cook Islands' immediate needs following the pandemic and border closures. It replaced the ERP as the government's primary vehicle to drive the Cook Islands' economic recovery from 2021/22. The overarching purpose of the ERR is to facilitate sustainable economic recovery from the impacts of COVID-19 so the Cook Islands is on track to achieve the EDS 2030 objectives.

The ERR seeks to facilitate sustainable economic recovery through reactive continuation of ERP measures, and through the following 'growth' workstreams:

- Reducing the Cost of Borrowing
- Managing the Burden of Public Debt
- Infrastructure Investment
- Barriers to Business Performance
- Productivity growth
- Improved Public Sector efficiency
- Labour Force and Population
- Foreign Investment to benefit the Cook Islands.

The EDS and ERR both aim to support a resilient, equitable and sustainable economy. Figure 3-9 sets out the relationship between the NSDA, the EDS and the ERR.

The EDS and ERR priorities will guide the government agency expenditure priorities in the 2023/24 Budget.

Figure 3-9 Relationship between key development documents



3.3 Assumptions underlying the economic and fiscal projections

Various assumptions have been made to forecast the Cook Islands economic outlook and the government's fiscal performance and position in the outer years.

3.3.1 Economic assumptions

3.3.1.1 Introduction

The Cook Islands National Statistics Office (NSO) publishes current price and real price (2016 base year) estimates of Gross Domestic Product (GDP) on a quarterly basis, using the production approach. GDP production estimates are disaggregated by major industry classifications, including institutional sectors. The latest data received from the NSO relates to the March quarter 2022, however there remains some technical issues with the real GDP data, so only the nominal GDP data for 2020/21 and the available quarters of 2021/22 have been used here.

3.3.1.2 Gross Domestic Product production model

A Computable General Equilibrium (CGE) modelling approach has been used to forecast aggregate GDP and a number of key variables in a manner that is internally consistent and uses economic relationships to determine how shocks permeate through the economy. This approach provides both real and nominal changes in variables over the period from 2022/23 to 2026/27 such as:

- Gross Domestic Product
- Trade aggregates
- Investment and savings
- Household consumption
- Consumer Price Index
- Wages
- Operating surpluses

This model was developed using technical assistance from the Asian Development Bank and utilising a wide range of data sources.

3.3.1.3 Data

The key data sets used for the model are:

- Nominal GDP – quarterly data to March 2022
- Real GDP – quarterly data to June 2020
- Trade, imports, and exports – monthly data to July 2022
- Consumer Price Index (CPI) – quarterly index data to September 2022
- International arrivals – Customs and Immigration monthly data to October 2022
- Building approvals – quarterly data to June 2022

3.3.1.4 Key economic indicator assumptions

Nominal GDP is expected to grow by:

- 13.9 per cent in 2022/23
- 10.2 per cent in 2023/24
- 3.7 per cent in 2024/25
- 5.3 per cent in 2025/26
- 5.3 per cent in 2026/27

Growth in prices, measured through the movements in the CPI, is expected as follows:

- 9.4 per cent in 2022/23
- 2.3 per cent in 2023/24
- 1.2 per cent in 2024/25
- 1.7 per cent in 2025/26
- 1.7 per cent in 2026/27

Refer to Chapter 6 for more information on the economic forecasts and indicators.

3.3.2 Fiscal assumptions

The government's expected fiscal performance over the forward period relies on the following assumptions:

- operating revenues are forecast on the basis of historical actuals, and one-off considerations, but assume no change to the tax revenue structure
- operating expenditure movements reflect current government policy commitments; and
- the level of government borrowing is based on exchange rates derived using Consensus Economics forecasts.

3.4 Fiscal Risks

The IMF defines fiscal risks as 'deviations of fiscal outcomes from what was expected at the time of the budget'. The IMF lists a number of sources of fiscal risk, including:

- shocks to macroeconomic variables, such as economic growth, commodity prices, interest rates, or exchange rates; and
- calls on contingent liabilities, obligations triggered by an uncertain event, including explicit and implicit liabilities such as those created by public corporations and sub-national governments.⁸

⁸ IMF 2009, Fiscal risks: sources, disclosure, and management. IMF Fiscal Affairs Department. See: <https://www.imf.org/external/pubs/ft/dp/2009/dp0901.pdf>.

The risk matters facing the Cook Islands are discussed below and while these have not been directly considered in the economic forecasts above, they have helped to guide the development of the MTFs.

3.4.1 Risk Categories

There are a number of risks over the forward budget period that could affect the macroeconomic forecasts that underpin the government's forward fiscal position. These are considered below, in no order.

3.4.1.1 Global Economic Risks

The largest risk to the economic forecasts has previously been a new variant of COVID-19 or other infectious disease that is resistant to vaccines and treatments in either the Cook Islands or our close trading partners – particularly New Zealand. However, as vaccines continue to prove largely effective, and governments reluctant to reintroduce the restrictions on travel of 2020 and 2021, this is considered lower than previously forecast. In the reduced scope of this risk, the largest risk to the Cook Islands economy is considered to be headwinds on the New Zealand economy. In response to inflation, the Reserve Bank of New Zealand (RBNZ) has acted aggressively and is now predicting a short recession which may impact on visitors to the Cook Islands.

A second key risk is the continued impact of rising inflationary pressures globally. Inflation puts pressure on the real incomes of people in the Cook Islands and in the source markets for tourists – reducing the affordability of discretionary spending such as travel. These risks are shared by many nations in the region, and as tourism returns this is the key risk to reverting to a situation without visitors.

Finally, as the Cook Islands has several loans denominated in US dollars and other international currencies, exchange rate variations are a source of risk due to the potential impact these could have on the Cook Islands debt portfolio. The IMF notes that the impact of an exchange rate depreciation is immediate and can be especially strong when a large share of the debt is in foreign currency. The potential impact of exchange rate movements on the Cook Islands debt position is assessed below.

3.4.1.2 Natural disasters

The IMF cites evidence that direct economic losses from natural disasters have often exceeded 10 percentage points of GDP in developing countries and amounted to a few percentage points of GDP in some advanced countries.

The Cook Islands has a high exposure to disaster risk due to its geographic location in the South Pacific cyclone belt, the remoteness and low-lying nature of many of the outer islands, and the proximity of buildings and infrastructure to the coast, particularly on Rarotonga. In addition, the heavy reliance on revenues from the tourism sector makes the economy vulnerable to the impact of disasters.

A destructive weather event, such as a cyclone, would have a significant impact on the Cook Islands' economic outlook, and severely affect the fiscal position. The Asian Development Bank's (ADB) 2016 report on a loan proposal for the Cook Islands Disaster Resilience Program notes that the Cook Islands has periodically experienced major cyclones that have caused substantial economic damage and loss of life (see Table 3-2)⁹.

⁹ ADB (2016). Report and Recommendation of the President to the Board of Directors: Proposed Policy-Based Loan Cook Islands: Disaster Resilience Program, Project Number: 50212-001. November 2016.

Table 3-2 Significant cyclones in the Cook Islands

Year	Name	Category	Estimated losses (\$m)	Estimated losses (% of GDP)
1987	Sally	2	24.6	51.6
1997	Martin	3	7.5	7.6
2005	Meena	4	10.0*	5.5
	Nancy	4		
	Olaf	5		
	Percy	5		
2010	Pat	2	7.8	3.2

* Combined estimated losses for all four cyclones in 2005.

To mitigate the economic risk posed by natural disasters, the government has put in place a range of structures to reduce its financial exposure to disaster risk, including:

- establishing a disaster emergency trust fund in 2017.
- taking out insurance coverage under the Pacific Catastrophe Risk Assessment and Financing Initiative for cyclones, with a 1-in-10-year probability of occurrence with pay-out based on the assessed severity of a specific cyclone.
- arranging a Disaster Recovery Mechanism loan from the ADB of \$30.3 million, which will only be triggered and drawn down in the event of a catastrophe.

3.4.1.3 Contingent liabilities

The government's contingent liabilities are summarised in Table 3-3. Adjustments have been made to some contingent liabilities since the publication of the 2022/23 budget in June 2022.

Table 3-3 Quantifiable contingent liabilities, as at 1 December 2022

Category	\$'000
Guarantees and indemnities	50
Uncalled capital	2,500
Legal proceedings and disputes	400
Vested assets	25,400
Total	28,400

3.4.1.4 Guarantees and indemnities

In 2011/12, government entered into a program under the New Zealand Aid programme focused on Pearl Sector Support previously operated by the Cook Islands Pearl Authority and now under the Ministry of Marine Resources.

Government guaranteed up to \$0.5 million as security for loans associated with the Pearl Production Credit Scheme. The full guarantee has been included as a contingent liability. The loan program has been discontinued, however there is outstanding debt on the loan scheme of approximately \$50,000. A solution to close this contingent liability remains under investigation.

3.4.1.5 Uncalled capital

Through the Cook Islands Property Corporation, government holds \$1.9 million in uncalled shares with the Asian Development Bank (ADB) in the form of 88 shares with a par value of USD 13,500 each.

In addition, the government holds \$0.6 million in uncalled shares of the Asian Infrastructure Investment Bank (AIIB) in the form of four shares with a par value of USD 100,000 each.

3.4.1.6 Legal proceedings and disputes

This contingency consists of various cases and is an estimate of the maximum potential liability (damages and costs) of the Crown known at the time of publication.

3.4.1.7 Vested Assets

The International Companies Act 1981-82 states that all monies realised from the International Company assets vesting in the Registrar must be lodged to the Public Account. There remains a claimable period of six years, post the International Company de-registration for owners of vested assets to place a claim on the funds owed to them. The total contingent liability for vested interests consists of tranches presented in Table 3-4.

Table 3-4 Vested Asset Contingent Liability Expiry Schedule

Tranche	Expiry Date	Value ¹⁰
2	20/12/2024	7,375,601
3	31/10/2026	9,694,634
4	01/09/2027	5,733,559
5	10/10/2028	2,585,826
Total		25,389,619

The above total has been rounded up for conservatism when including in the total of Contingent Liabilities.

3.4.1.8 Financial liabilities relating to Island Governments

The Ministry of Finance and Economic Management (MFEM) has not approved any contract or security from the Island Governments that could result in a potential liability.

There is no preferential treatment of public liability or other liability for the Island Governments and the risk of the Island Governments generating such liabilities is low. No mitigation has been undertaken to minimise the risk any more than for other government agencies based in Rarotonga.

Unpaid invoices are a potential risk that could be difficult to mitigate without tighter financial controls than those imposed through the Cook Islands Financial Policies and Procedures Manual, the MFEM Act 1995/96 and the Public Expenditure Review Committee and Audit (PERA) Act 1995/96. MFEM is in the process of implementing a Financial Management and Information System (FMIS), which will improve the process of invoice payments and record keeping however, manual elements inherent to the billing process means that this risk cannot be completely mitigated.

3.4.1.9 State-owned enterprises

The Cook Islands Government has several State-owned Enterprises (SOEs) under the management of the Cook Islands Investment Corporation (CIIC). They are:

- Airport Authority of the Cook Islands
- Bank of the Cook Islands
- Cook Islands Ports Authority
- Te Aponga Uira (electricity utility in Rarotonga)
- Te Mana Uira (electricity utility in Aitutaki)
- To Tatou Vai Limited (water and sanitation); and
- Avaroa Cable Limited (Manatua cable project).

¹⁰ AUD/NZD foreign exchange where applicable is 1.131 utilising cross-rates provided in *Foreign Exchange Consensus Forecasts* published by Consensus Economics, November 2022.

The key risks associated with SOEs are poor financial performance, and/ or excessive borrowing that can result in government having to guarantee or potentially restructure the SOEs debt, often at substantial budgetary cost. Poor performance can result from a range of factors including:

- exogenous shocks (unexpected or unpredictable events outside the country's control that can severely impact the economy) – for example, earthquake or tsunami
- lack of incentive to be competitive compared to a private sector enterprise that would go bankrupt as result of protracted poor performance; and
- government requirements to undertake community obligations.

The government has put in place a range of measures to mitigate against SOE fiscal risk, including:

- placing all SOEs under the CIIC umbrella, with one of its principal objectives being the efficient, profitable and professional management of SOEs
- ensuring that SOE debt falls under the broader government debt ceiling target and new debts undergo a Debt Sustainability Analysis prior to approval, as required by the Loan Repayment Fund (LRF) Act 2014; and
- providing for a portion of SOE debt repayments in the Loan Reserve Fund.

3.4.2 Assessing the impact of fiscal and macroeconomic shocks

3.4.2.1 Introduction

The Cook Islands Government utilises an analytical tool – the Cook Islands Fiscal Tool – to first calibrate, and then operationalise the revised set of fiscal rules that form the core of the MTFS.

The operational part of the fiscal tool – the Fiscal & Macro Impact Model – models the interactions between fiscal policy decisions and economic output, and the fiscal impact of economic shocks, within the framework of the revised set of fiscal rules. This is accomplished by running fiscal and macroeconomic shocks through a simple version of the Cook Islands Government accounting framework using fiscal multipliers and tax impact models.

The model provides for three types of shocks:

- Fiscal – change in operating expenditure, capital expenditure and/ or revenue
- GDP – models the impact of a direct change in GDP
- Arrivals – models the impact of a change in the number of international visitors to the Cook Islands.

The Cook Islands Government also conducts sensitivity analysis on movements in the value of the New Zealand dollar against the government's major trading currencies to assess the impact on gross debt and debt servicing requirements.

This section shows the potential impact of a selected range of fiscal and macroeconomic shocks on the 2023/24 Budget profile using the fiscal impact tool.

Fiscal shocks – or alternatively government fiscal policy decisions – are evaluated in terms of their direct impact on fiscal indicators – these are the first order impacts – and their second order impacts via changes in GDP flowing through to tax revenues. The first order impacts are simply one-for-one changes in the baseline operating expenditure, capital expenditure or tax revenue as relevant. The second order impacts are estimated using fiscal multipliers and a simple tax impact model.

Revenue shock

Two revenue shocks are applied: low and high, increasing and decreasing the forecasts by a simultaneous amount. These shocks applied to the base case as presented above.

The low revenue case, with revenues falling by 10 to 20 per cent per year over the modelling period, is presented in Table 3-5. The fiscal balance breaches the -1.9 per cent of GDP guideline in the first two years, before falling within this. While the base case sees a return to the fiscal guideline in all years, the revenue impact sees this delayed by two years.

Table 3-5 Low revenue shock

		2023/24	2024/25	2025/26	2026/07
Change in opex (\$m)		0	0	0	0
Change in capex (\$m)		0	0	0	0
Change in tax revenue (\$m)		-19.9	-25.6	-31.6	-38.1
Fiscal balance (% of GDP)	Base	-0.9	1.8	3.7	5.3
	Shock	-4.2	-2.3	-1.1	-0.2

The high revenue case, with revenues higher by 10 to 20 per cent per year over the modelling period, is presented in Table 3-6. The key result is a strengthening of the fiscal balance, especially in the two outer years, with a much faster return to fiscal surpluses from 2023/24.

Table 3-6 High revenue shock

		2023/24	2024/25	2025/26	2026/07
Change in opex (\$m)		0	0	0	0
Change in capex (\$m)		0	0	0	0
Change in tax revenue (\$m)		19.9	25.6	31.6	38.1
Fiscal balance (% of GDP)	Base	-0.9	1.8	3.7	5.3
	Shock	2.4	5.9	8.5	10.8

Operating shock

A higher-than-expected operating expenditure shock is applied, assuming a 10 per cent increase above the estimates over the forward period, with the impact of the additional expenditure presented in Table 3-7. The fiscal balance deteriorates by approximately 2 percentage points in all four years. However, there is a positive impact on GDP of around two per cent per year after the first year.

Table 3-7 High Opex Shock

		2023/24	2024/25	2025/26	2026/07
Change in opex (\$m)		18	18	18	18
Change in capex (\$m)		0	0	0	0
Change in tax revenue (\$m)		0.7	0.7	2.0	3.6
Fiscal balance (% of GDP)	Base	-0.9	1.8	3.7	5.3
	Shock	-3.8	-0.8	1.5	3.4
Impact on nominal GDP (%)	%	0.8	1.7	2.1	2.1
	\$m	4.7	10.7	14.1	14.9

Capital Shock

A lower-than-expected capital expenditure shock is applied, assuming a 20 per cent reduction in the estimates over the forward period.

The impact of the reduced expenditure over the modelling period is presented in Table 3-8. The negative impact on GDP of about \$8.5 million per year by 2026/27 has a flow-on effect to revenue of \$3.3 million. The net effect on the fiscal balance is very slightly positive, with the capital expenditure reduction barely outweighing the fall in revenue, especially in the outer years.

Table 3-8 Low Capex Shock

		2023/24	2024/25	2025/26	2026/07
Change in opex (\$m)		0	0	0	0
Change in capex (\$m)		-4	-3	-3	-3
Change in tax revenue (\$m)		-0.6	-1.6	-2.5	-3.3
Fiscal balance (% of GDP)	Base	-0.9	1.8	3.7	5.3
	Shock	-0.4	2.0	3.8	5.3
Impact on nominal GDP (%)	%	-0.7	-1.3	-1.3	-1.2
	\$m	-4.5	-7.9	-8.6	-8.5

GDP Shock

A low GDP shock is applied, assuming a 5 per cent decrease on the forecast for each year of the forward period, and is presented in Table 3-9. Tax revenue falls by \$8.2 million in 2024/25, causing the fiscal balance to fall to 0.5 per cent of GDP. In 2025/26 this impact increases to \$12.8 million, pushing the fiscal balance to 1.9 per cent of GDP from 3.7 per cent in the baseline. The GDP impact in 2025/26 and 2026/27 is minus 7.4 per cent in each year, or a reduction of around \$50 million.

Table 3-9 Low GDP Shock

		2023/24	2024/25	2025/26	2026/07
Change in opex (\$m)		0	0	0	0
Change in capex (\$m)		0	0	0	0
Change in tax revenue (\$m)		-3.8	-8.2	-12.8	-17.0
Fiscal balance (% of GDP)	Base	-0.9	1.8	3.7	5.3
	Shock	-1.6	0.5	1.9	3.1
Impact on nominal GDP (%)	%	-4.5	-6.6	-7.4	-7.4
	\$m	-27.3	-41.1	-48.7	-51.4

Arrivals shock

A low international visitor arrivals shock is applied, assuming a 5 per cent decrease on the forecast for each year of the forward period, and is presented in Table 3-10. Tax revenue falls by over \$5 million per year by 2026/27, which reduces the fiscal balance by close to 1 percentage point in each year. The impact on GDP is slightly muted than it often would be in the earlier years, due to the reduced visitors during recovery, but by the later years exceeds 3 per cent.

Table 3-10 Low Arrivals Shock

		2023/24	2024/25	2025/26	2026/07
Change in opex (\$m)		0	0	0	0
Change in capex (\$m)		0	0	0	0
Change in tax revenue (\$m)		-1.7	-1.6	-3.5	-5.6
Fiscal balance (% of GDP)	Base	-0.9	1.8	3.7	5.3
	Shock	-1.2	1.2	2.9	4.3
Impact on nominal GDP (%)	%	-1.9	-2.8	-3.2	-3.2
	\$m	-11.5	-17.6	-21.1	-22.4

Severe Arrivals shock

In the context of the COVID-19 experience, a severe low international visitor arrivals shock is applied, assuming a 50 per cent decrease on the forecast for 2023/24, and a 25 per cent decrease in 2024/25. The impact of the reduction in arrivals is presented in Table 3-11. Tax revenue falls by over \$25 million per year by 2025/26, which reduces the fiscal balance by almost 4 percentage points in that year.

The impact on GDP is over 17 per cent of GDP in each of the shocked years. The lack of change in operating expenditure does not reflect any specific decisions which may be taken by government if

this situation were to occur, such as the Economic Response Plan that was enacted in response to the pandemic.

Table 3-11 Severe Low Arrivals Shock

		2023/24	2024/25	2025/26	2026/07
Change in opex (\$m)		0	0	0	0
Change in capex (\$m)		0	0	0	0
Change in tax revenue (\$m)		-16.1	-24.9	-25.7	-27.9
Fiscal balance (% of GDP)	Base	-0.9	1.8	3.7	5.3
	Shock	-4.4	-2.7	-0.2	1.3
Impact on nominal GDP (%)	%	-19.0	-17.8	-7.4	-1.9
	\$m	-114.5	-111.0	-49.0	-13.0

Exchange rate shock

Chapter 7 sets out the Cook Islands Government’s current and future debt position. A key ongoing risk to the Crown’s debt liability is movement in the value of the New Zealand Dollar (NZD) against the currencies in which the Crown’s loans are denominated.

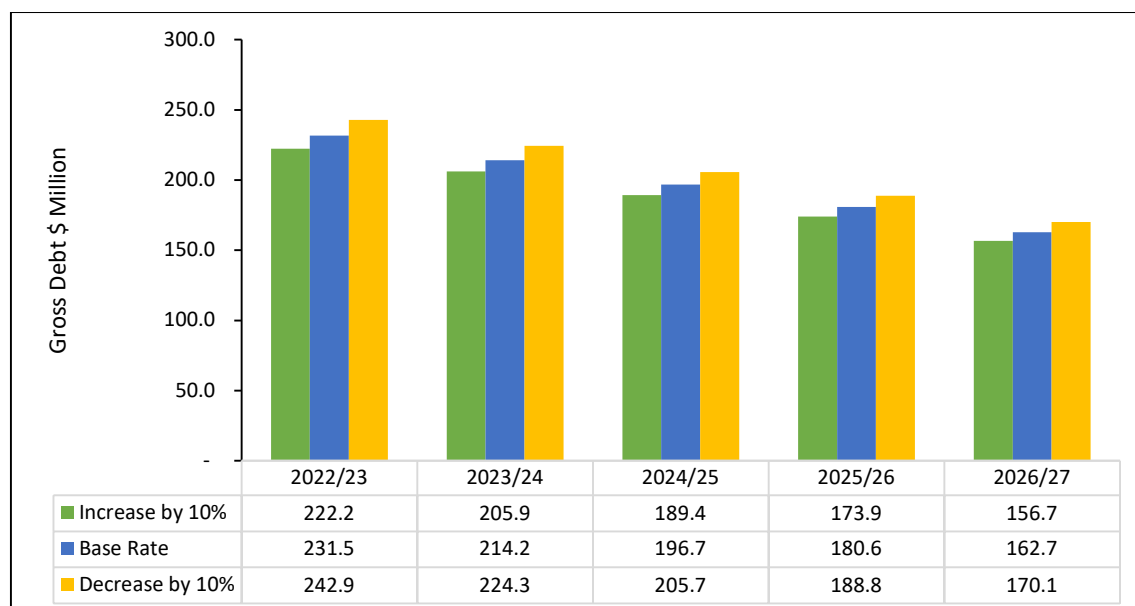
The sensitivity analysis considers the impact of a 10 per cent appreciation and depreciation of the NZD against key currencies to determine the impact on the gross borrowings and the debt servicing cost.

Table 3-12 Exchange rates assumptions +/- 10 per cent

Foreign Exchange Currency	-10%	Budget Base rate	+10%
EUR	0.5441	0.6046	0.6650
USD	0.5463	0.6070	0.6677
RMB	3.9017	4.3352	4.7687
SDR	0.4215	0.4683	0.5151

If the relevant NZD exchange rates were to depreciate by 10 per cent against foreign currencies, Crown debt as at June 2023 would increase by an estimated \$11.4 million compared to a decrease of \$9.3 million if the NZD were to appreciate by 10 per cent. This illustrates that the Crown’s gross debt level is more adversely sensitive to depreciation of the NZD.

Figure 3-10 Sensitivity of gross debt to NZD movements



4 Fiscal Update

This chapter summarises the movements in government revenue and expenditure since the passing of the 2022/23 Budget. It does not include the projected changes that are outlined in the Medium-term Fiscal Strategy (MTFS) and does not consider the use of debt to fund financing gaps. This chapter should be read in conjunction with chapter 3 when considering the forecasts.

4.1 Fiscal Indicators and Projections

Government's updated fiscal position and projections for the medium-term are shown in Table 4-1.

The fiscal balance for 2021/22 year has been revised upward from a deficit of \$37.7 million to \$34.9 million, and the operating balance has been revised downwards from a deficit of \$22.9 million to \$24.5 million. This is primarily due to a downward revision in tax revenue of \$1.2 million and an offsetting adjustment in other revenue with the inclusion of \$10.1 million in General Budget Support.

The forecast fiscal balance for 2022/23 has been revised downward by \$3.7 million from a deficit of \$39.8 million to \$43.5 million, and the operating balance from a deficit of \$19.4 million to \$22.6 million. These changes are underpinned by offsetting adjustments to taxation revenues and other revenues.

Revenue projections over the forward years have been revised upwards, resulting in an expected operating deficit in 2023/24 of \$0.8 million. Fiscal surpluses remain projected from 2024/25 however are expected to rise faster than previously forecast.

Government's General Cash Reserves are dependent on fiscal surpluses. The debt repayment profile, with increasing loan principal repayments through to 2030, results in a slow improvement in cash reserves.

Net debt, including commercial debt with State-Owned Enterprises (SOE) is expected to be \$225.0 million (41.1 per cent of revised GDP) at the end of 2022/23, before decreasing to \$174.5 million (26.5 per cent of GDP) by 2025/26. Improvements in the net debt ratio initially are due to recovery in GDP levels, however as GDP returns toward historic levels the impact of debt repayment plays an increasing role in reducing the ratio.

A precautionary financing option (PFO) loan (Contingency Loan) is available to government totalling \$55.54 million however, this option is not considered in this analysis.

Table 4-1 Fiscal Indicators Summary

	2021/22 Actual	2022/23 Budget Estimate	2022/23 HYEFU Estimate	2023/24 Projection	2024/25 Projection	2025/26 Projection
Statement of Financial Performance						
Taxation Revenue (\$m)	106.4	139.3	122.9	159.8	172.2	182.7
Social Contributions (\$m)	0.0	0.0	0.0	0.0	0.0	0.0
Other Revenue (\$m)	72.6	28.3	37.0	21.3	21.6	21.6
Total Operating Revenue (\$m)	179.0	167.7	159.9	181.1	193.9	204.3
Total Operating Revenue Percentage of GDP	37.3	34.6	29.2	30.1	31.0	31.1
Tax Revenue Percentage of GDP	22.2	28.8	22.5	26.5	27.6	27.8
Total Cyclical Revenue (\$m)	9.8	10.6	9.5	10.5	10.5	10.1
Total Cyclical Revenue Percentage of GDP	2.0	2.2	1.7	1.7	1.7	1.5
Total Structural Revenue (\$m)	169.2	157.0	150.4	170.6	183.4	194.2
Total Structural Revenue Percentage of GDP	35.2	32.4	27.5	28.3	29.4	29.5
Personnel (\$m)	69.9	76.4	76.3	76.7	76.8	76.8
Percentage of Total Revenue	39.0	45.6	47.7	42.4	39.6	37.6
Percentage of Structural Revenue	41.3	48.7	50.8	45.0	41.9	39.5
Total Operating Expenditure (\$m)	203.5	187.0	182.5	181.9	180.7	178.8
Percentage of GDP	42.4	38.6	33.4	30.2	28.9	27.2
Percentage of Operating Revenue	113.7	111.6	114.2	100.4	93.2	87.5
Cash Operating Expenditure*	189.7	173.1	168.7	168.4	167.4	164.9
Operating Balance (\$m)	-24.5	-19.4	-22.6	-0.8	13.1	25.5
Percentage of GDP	-5.1	-4.0	-4.1	-0.1	2.1	3.9
Capital Expenditure	23.8	34.2	34.6	18.3	15.9	15.0
Depreciation	13.4	13.8	13.8	13.8	13.8	13.8
Non-Operating Balance (\$m)	-20.8	-44.0	-45.6	-32.9	-32.2	-33.9
Fiscal Balance surplus/deficit (\$m) *	-34.9	-39.8	-43.5	-5.3	11.0	24.3
Percentage of GDP	-7.3	-8.2	-8.0	-0.9	1.8	3.7
Statement of Financial Position (\$m)						
Assets (\$m)	577.9	611.5	611.5	596.9	594.2	602.6
Liabilities (\$m)	413.2	414.0	414.0	396.9	379.6	363.8
Crown Balance (\$m)	164.7	197.5	197.5	200.0	214.6	238.8
Percentage of GDP	34.3	40.8	36.1	33.2	34.4	36.3
Working Capital (\$m)	62.7	19.4	19.4	2.9	1.1	10.0
Working Capital (months coverage)	4.0	1.3	1.4	0.2	0.1	0.7
Stabilisation Account	3.5	3.5	3.5	3.5	3.5	3.5
General Cash Reserves	66.2	22.9	22.9	6.5	4.7	13.5
Statement of Borrowings (\$m)						
Gross Debt end of FY (\$m)	228.5	229.2	229.2	212.1	194.8	179.0
Excluding Contingency Loan	112.6	-1.0	0.0	0.0	0.0	0.0
Gross Debt, Percentage of GDP	47.6	47.4	41.9	35.2	31.2	27.2
Net Crown Debt, end of FY (\$m)	217.4	225.0	225.0	207.8	190.4	174.5
Net Debt, Percentage of GDP	45.3	46.5	41.1	34.5	30.5	26.5
Loan Repayment Reserves Held (\$m)	11.0	4.2	4.2	4.3	4.4	4.5
Net Debt Servicing (\$m)	13.3	14.5	18.1	23.5	24.5	26.5
Percentage of Total Revenue	7.4	8.7	11.3	13.0	12.6	13.0
Percentage of Structural Revenue	7.8	9.2	12.0	13.8	13.4	13.7
Development Partner Support (\$m)						
Grants (\$m)	23.2	91.5	91.5	19.6	11.2	9.4
Percentage of GDP	4.8	18.9	16.7	3.2	1.8	1.4
Memo item: Nominal GDP (\$m)	480.0	567.0	546.9	602.6	624.6	657.9

4.2 Fiscal Rules

This section explains government’s performance against the fiscal rule, in particular the actual expenditure for 2021/22 due to executive orders and carry-forwards approved for the fiscal year.

It does not include proposed funding adjustments outlined in the MTFS, nor the filling of any financing gap, which are addressed in the rules presented in Chapter 3.

4.2.1 Cash Reserves rule

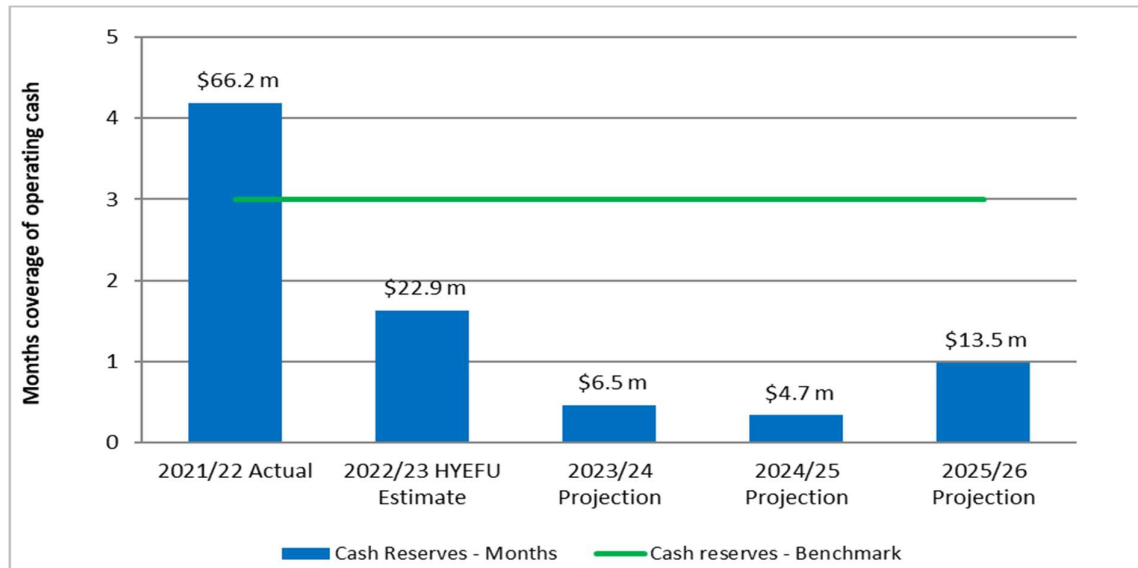
“The equivalent of 3 months of operating expenditure must be available as either cash or liquid investments”

General cash reserves are principally dictated by government’s fiscal balance, with fiscal surpluses increasing the cash reserve. Debt principal repayments are factored in after the fiscal balance, hence the cash reserves may behave differently to the fiscal balance. Revisions to actual versus estimated revenue and expenditure may also have a substantial impact to cash reserves.

General cash reserves for 2021/22 increased from \$65.9 million estimated at Budget to \$66.2 million, with increased ‘Other Revenue’ offsetting increased operating expenditures.

The revised revenue and expenditure forecast for 2022/23 result in an increase in the expected cash reserves of \$2.6 million to \$22.9 million at year-end. Fiscal surpluses from 2024/25 indicate a recovery in the cash reserves from 2025/26.

Figure 4-1 Cash Reserves rule

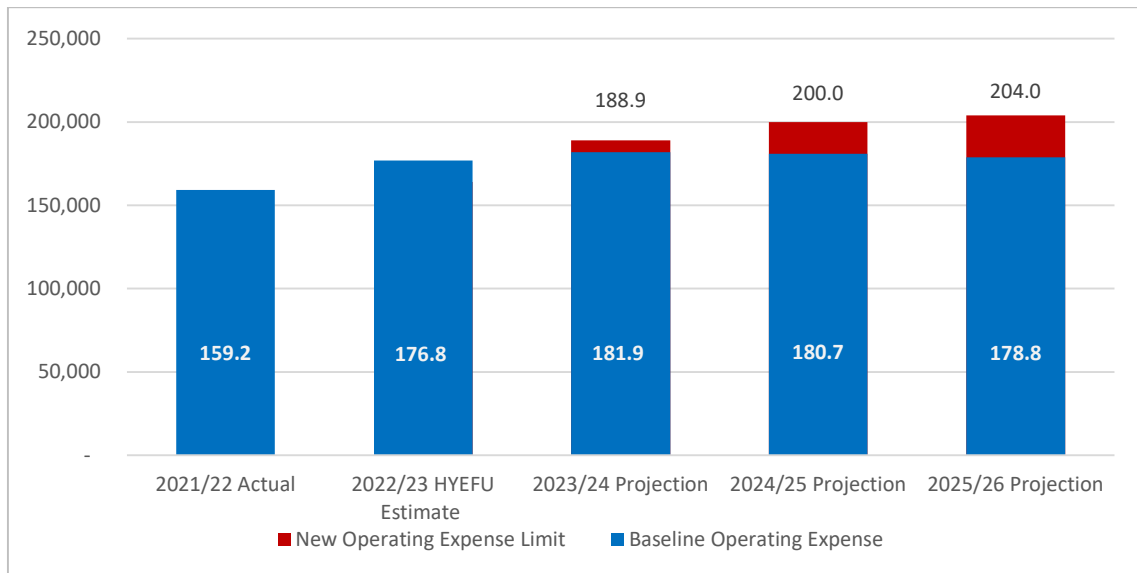


4.2.2 Operating Expenditure rule

“Baseline budgeted operating expenditure cannot grow more than 2 per cent or the average of the past two years growth in the Consumer Price Index (CPI) year-on-year.” The rule operates within the overall MTFS and is in effect only binding where new fiscal space is available.

Actual expenditure for 2021/22 is above the expenditure limit due to the employment of the Exit Clause permitting expenditure beyond the rule limits. In 2022/23 the Exit Clause was utilised at a reduced level (compared to 2021/22), hence expenditure is forecast to exceed the rule limit, noting that actual expenditure is likely to be below the rule limit. Projected expenditure in the forward years is within the rule limits.

Figure 4-2 Expenditure Rule

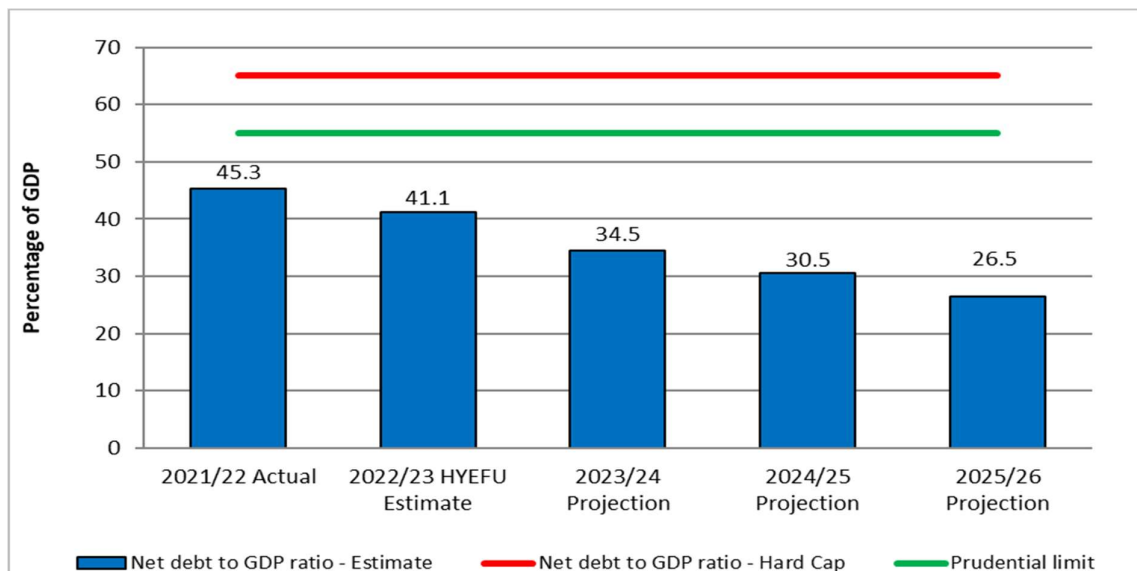


4.2.3 Net Debt and Investment rules

“Net debt should not exceed a soft cap of 55 per cent of GDP and cannot exceed a hard cap of 65 per cent of GDP”, and “Any additional borrowing above 55 per cent of GDP must go towards capital investment and/or targeted GDP stimulus purposes only.”

Net debt to GDP for 2021/22 is estimated to be 45.3 per cent with a total net borrowing of \$217.4 million¹¹. The net debt to GDP ratio will remain within the Net Debt rule limits, and is expected to continue to decrease as GDP recovers and COVID-19 related debt is repaid.

Figure 4-3 Net debt to GDP ratio



¹¹ This value differs to the value reflects in the Crown Debt and Net Worth chapter as debt for state owned enterprises are excluded in the fiscal analysis here.

4.3 Updates to Previously Reported Budget Data

4.3.1 Finalisation of 2021/22 Actuals

This section outlines the government's final results for the 2021/22 fiscal year, comparing to the estimated actual results presented in the 2022/23 Budget Estimates.

Total operating revenue was revised upward to \$179.0 million. The adjustment consists of a \$1.2 million decrease to taxation revenue offsetting a \$6.4 million increase in other revenue.

Taxation revenue adjustments primarily consist of a \$4.9 million increase in VAT receipts and \$5.3 million in Income Tax receipts, offsetting a decrease in Company Tax receipts of \$10.4 million. Revisions to other revenue primarily consist of an increase to Fishing Revenues of \$4.2 million.

Total operating expenditure was revised upwards by \$6.8 million to \$203.5 million, primarily due to an increase in Ministry Outputs expenditure of \$5.0 million. These adjustments result in a downward revision of the net operating balance from a deficit of \$23.0 million to \$24.5 million.

Capital expenditure for 2021/22 was \$23.8 million, a revision of \$4.0 million compared to the estimated actual expenditure reported in the 2022/23 Budget. Logistical and capacity constraints due to the impacts of COVID-19 continue to result in project delays and implementation. As a result, the fiscal balance improved by \$2.8 million to a fiscal deficit of \$34.9 million for 2021/22.

4.3.1.1 Executive Orders approved in the 2021/22 Budget

Article 70(3)(b) of the Cook Islands Constitution Act 1964 allows for the approval of expenditure beyond the Appropriation Bill provided that the total amount of all sums issued and paid do not exceed one and a half per cent (1.5%) of the overall expenditure appropriation for the fiscal year. Expenditure outside the scope of the Appropriation Bill requires approval through Executive Order.

Executive orders may be approved between the publication of the Budget Estimates and the end of the fiscal period and are included in the finalised actual expenditure data.

As of 30 June 2022, a total of **\$930,400** was approved through Executive Order in the 2021/22 fiscal period. These approved Executive orders consist of:

- **\$800,000** top-up to the Patient Referral administered payment cost to fund additional patient referrals within the Cook Islands and to New Zealand beyond budgeted level.
- **\$130,400** top-up to the Operating Contingency to replenish payments made to the Fisheries and Agricultural sectors in response to storm events in January 2022.

4.4 Movements since the 2022/23 Budget

The 2022/23 Budget classifies expenditure and revenue adjustments according to the following categories:

- Policy decisions leading to new initiatives undertaken by government
- Technical adjustments – revisions from estimated to final actual expenditure and retentions of excess trading revenue
- Reclassification of expenses, which includes intra-agency adjustments for example transfers of operating into personnel
- Parameter changes – movements that occur due to economic changes that are outside of a decision by the government, including depreciation, movements in welfare beneficiary numbers and the impact of changes in fuel costs on the airline underwrite.

The adjustments to the revenue and expenditures forecasts presented in the 2022/23 Budget Estimates are presented in Table 4-2.

Table 4-2 Reconciliation of Operating Statement (\$'000)

Statement of Government Operations	2021/22	2022/23	2023/24	2024/25	2025/26
Operating balance as at 2022/23 Budget	-22,950	-19,391	-684	5,486	17,107
Revenue					
Revenue Parameter Changes	-1,183	-16,364	2,053	9,536	10,139
Adjustments to:					
Value Added Tax (VAT)	4,878	5,082	-3,754	-2,139	-2,217
Income tax	5,371	3,400	4,023	4,850	2,950
Import levies	-1,539	-932	536	1,712	2,332
Company tax	-10,417	-17,777	1,844	5,017	6,647
Departure tax	594	-5,877	-332	362	717
Withholding tax	-70	-259	-265	-265	-290
Other Revenue Changes	6,400	8,611	881	889	895
Other revenue	6,470	2,168	881	889	895
Trading Revenue	-70	-	-	-	-
Dividend	-	-	-	-	-
General Budget support	-	6,443	-	-	-
Total Revenue Changes to 2022/23 HYEFU	5,217	-7,753	2,935	10,426	11,033
Expenditure					
Expenditure Decisions by Government	-	-12,050	-	-	-
Technical adjustments	-	1,525	-	-	-
Reclassifications of expenditure	-	-	-	-	-
Parameter changes	6,790	6,024	3,066	2,771	2,629
Total Expenditure Changes to 2022/23 HYEFU	6,790	-4,501	3,066	2,771	2,629
OPERATING BALANCE as at 2022/23 HYEFU	-24,523	-22,644	-815	13,140	25,511
Capital Expenditure	23,820	34,646	18,257	15,897	15,042
Depreciation	13,441	13,767	13,783	13,783	13,783
FISCAL BALANCE - as at 2022/23 HYEFU	-34,903	-43,523	-5,289	11,026	24,252

4.4.1 Revenue

Revenue estimated for 2022/23 has decreased by \$7.8 million to \$159.9 million due to a net downward adjustment in taxation receipts of \$16.4 million, in conjunction with a net increase in other revenue of \$8.6 million primarily attributable to \$6.4 million in General Budget Support transferred in from the residual Official Development Assistance grant of \$20.0 million received from the New Zealand Government in November 2021, and a receipt of Vested Assets through the Financial Services Commission¹² totalling \$2.3 million.

In the forward years other revenue components have been revised upwards due to economic factors, in conjunction with an increase in taxation revenue as tourism levels support economic recovery, supporting income and company taxation levels. The adjustments for all years are explained in Table 4-2, with individual budget lines detailed in Schedule 7 (Chapter 9.12).

¹² The credit of vested assets to the government account creates a contingent liability reported in 3.4.1.3 Contingent Liabilities.

4.4.2 Expenditure

4.4.2.1 Carry Forwards from the 2021/22 Budget

For 2022/23, a total carry-forward of \$3.2 million (consisting of \$1.7 million for operating and \$1.5 million for capital investment) has been approved to support the completion of certain work programmes from the 2021/22 Budget.

The approved capital investment budget consists of the following capital projects:

Capital - \$1,455,921

- **\$33,471** to complete the Apii Nikao sound proofing project (Education).
- **\$421,570** for the Aitutaki Harbour dredging work (CIIC).
- **\$29,670** to complete the remedial works for the prison facility in Arorangi (CIIC).
- **\$648,865** to complete building projects on Rarotonga (CIIC).
- **\$77,378** to complete the administration building on Tauhunu, Manihiki (CIIC).
- **\$50,000** for the purchase of a Civil Services truck (Internal Affairs).
- **\$174,637** for the Renewable Energy Project (OPM).
- **\$50,000** for the Prison Development Program (Corrective Services).

The carry-forward approved for operating will be used to cover the following expenses:

Operating - \$97,058

- **\$46,500** for the Audit office to conduct recruitment and a scoping visit to the Southern group.
- **\$45,558** for the Ministry of Transport to cover a Pa Enea aviation audit, an annual audit of meteorological services and various travel related expenses.
- **\$5,000** for the Ministry of Corrective Services to repair and maintain its motor vehicles.

Administered Payments - \$1,513,475

- **\$17,600** for the Remuneration Tribunal Committee to complete its review (Parliament).
- **\$1,308,500** to support marketing-related activities for a new airline access (Tourism).
- **\$144,806** for Judges Allowances to cover the costs of providing judicial services (Justice).
- **\$42,569** for the National Census to complete outstanding data extraction (MFEM).

Payments on behalf of Crown - \$40,000

- **\$40,000** for the QR Travel & Allowance to cover travel expenses (Parliament).

4.4.2.2 Executive Orders since the 2022/23 Budget

As of 1 December 2022, a total of **\$1.3 million** has been approved through Executive order since the passing of the 2022/23 Budget for the following:

- **\$25,000** increase in appropriation for the Office of the Prime Minister to support Cabinet services,
- **\$375,369** to top up the Legal Provisions Administered Fund managed by Crown to cover litigation costs,
- **\$100,000** for the CISNOC administered fund to support the Cook Islands Rugby League,
- **\$570,000** in supplementary funding for the Shipping Subsidy, and
- **\$107,080** to cover legal costs.

4.4.2.3 Forecast Expenditure Adjustments

Where funding has been appropriated for a specific purpose and it has been confirmed that the expenditure will not occur as intended (for any reason), and that those funds will not be expended for other purposes, these have been reflected as an expenditure adjustment in order to provide a more

accurate projection of operating and fiscal balances. These revisions are based on information known at the time of preparation of the HYEPU, and may be subject to further change.

Administered Payments - \$11.5 million

- **\$7.0 million** in the Airline Underwrite as new agreements will not commence or require payments in the 2022/23 fiscal period.
- **\$2.6 million** in the Economic Recovery Roadmap allocated as a 'fuel reserve' should airline agreements have been established and airline fuel prices move unfavourably as well as other smaller items not likely to be expended in 2022/23.
- **\$2.5 million** in the COVID-19 Medical Response Fund due to changes in assumptions on the impact of the virus subsequent to the normalisation, and relevant response needs.

Capital Investment - \$1.0 million

- **\$1.0 million** of the To Tatou Vai capital investment balance due to unexpected delays in project implementation and expenditure movements.

Other Adjustments - \$7.0 million

An adjustment to the transfer to the Loan Repayment Fund (LRF) of \$7.0 million has also been made to the Crown Operating Statement to reflect the utilisation of accrued funds in the LRF in place of an additional transfer.

4.4.3 Fiscal Forecast

The future economic performance and revenues have been developed conservatively with the uncertain nature of recovery from the external shock of COVID-19.

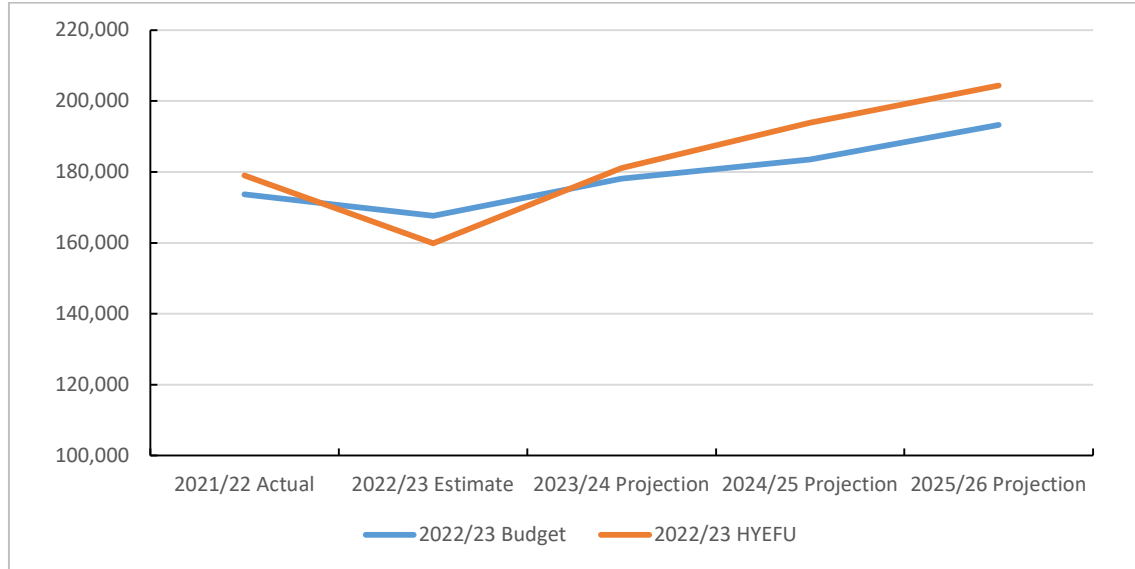
Total revenue for 2022/23 is estimated to decrease by \$7.8 million due to a large one-off decrease in taxation revenue, in conjunction with revisions to other taxation revenue forecasts, offsetting additional revenue received through General Budget Support and Vested Assets. Government revenue is expected to increase in the outer years reflecting the recovery from the impacts of COVID-19 as the tourism industry improves.

Government revenue is expected to increase in the outer years reflecting recovery from the impacts of COVID-19 as the tourism industry improves. The revised forecasts are compared in Table 4-3 and Figure 4-4.

Table 4-3 Updated Government Revenue Forecasts

Revenue Projections	2021/22 Actual	2022/23 Estimate	2023/24 Projection	2024/25 Projection	2025/26 Projection
2022/23 Budget	173,736	167,652	178,157	183,455	193,310
2022/23 HYEUFU	178,953	159,898	181,092	193,880	204,343
Difference	5,217	-7,753	2,935	10,426	11,033

Figure 4-4 Government Revenue Forecast Comparison



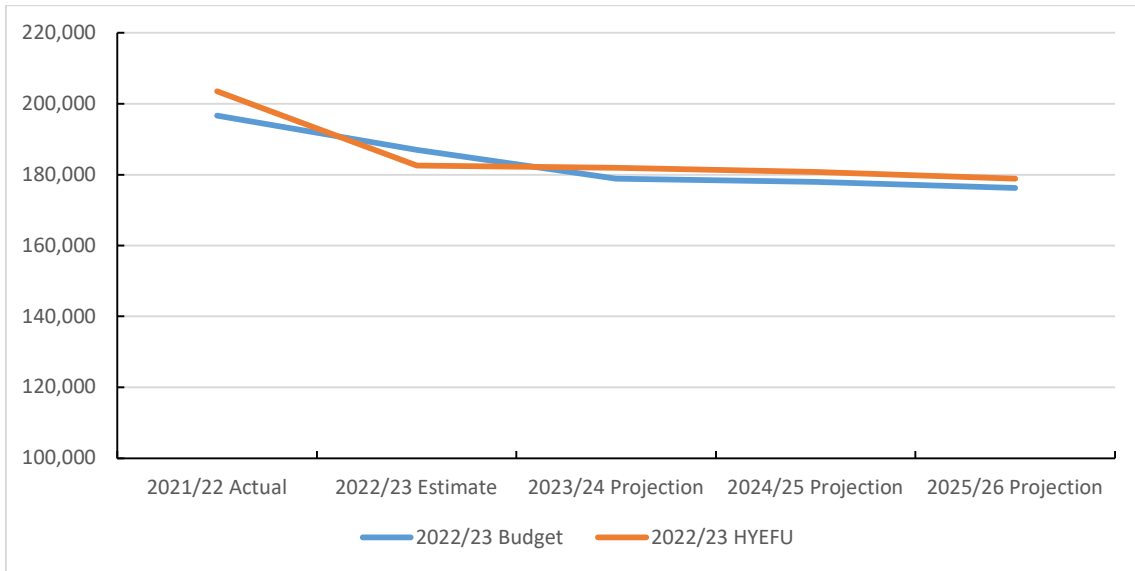
Government expenditure for 2022/23 is expected to decrease by \$4.5 million primarily due to budget lines that will not be expended, with some partial offsets through higher costs such as debt interest.

From 2023/24 onwards, Government expenditure is expected to be higher than was forecasted at the time of the budget however due to operating changes, Government Output expenditure is expected to decrease as the Government focuses on debt and interest repayments.

Table 4-4 Updated Government Expenditure Forecasts

Expenditure Projections	2021/22 Actual	2022/23 Estimate	2023/24 Projection	2024/25 Projection	2025/26 Projection
2022/23 Budget	196,685	187,043	178,841	177,969	176,202
2022/23 HYEUFU	203,476	182,542	181,906	180,740	178,832
Difference	6,790	-4,501	3,066	2,771	2,629

Figure 4-5 Government Expenditure Forecast Comparison



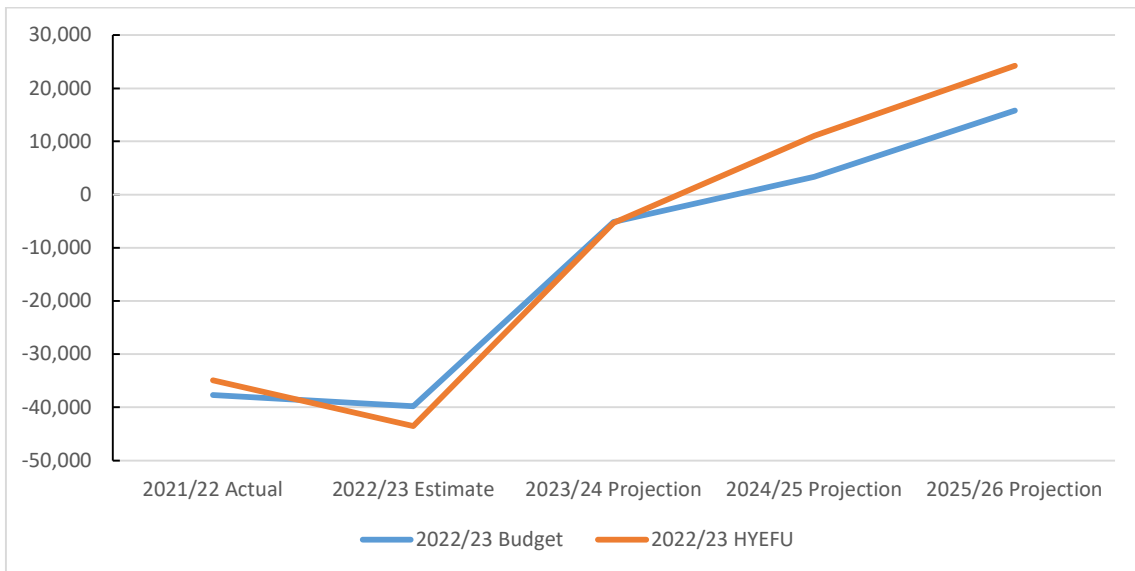
The fiscal balance for 2022/23 is expected to deteriorate by \$3.8 million because of the lower than anticipated taxation revenue, resulting in a fiscal deficit of \$43.5 million.

With improved revenue projected in the outer years, the fiscal balance is projected to improve, resulting in a fiscal surplus of \$24.3 million by 2025/26.

Table 4-5 Fiscal Balance

Fiscal Balance	2021/22 Actual	2022/23 Estimate	2023/24 Projection	2024/25 Projection	2025/26 Projection
2022/23 Budget	-37,665	-39,784	-5,158	3,372	15,848
2022/23 HYEFU	-34,902	-43,522	-5,289	11,026	24,252
Difference	2,762	-3,738	-131	7,654	8,404

Figure 4-6 Government Fiscal Balance



5 Government Financial Statistics Statement

The Government Financial Statistics (GFS) Operating Statement provides a breakdown of the government's financial performance. All funds managed at the general government level such as the Loan Reserve fund and Official Development Assistance are also included in the statement.

Table 5-1 GFS Statement

Statement of Government Operations	2021/22 Actual	2022/23 HYEFU Estimate	2023/24 Projection	2024/25 Projection	2025/26 Projection
REVENUE	202,182	251,351	200,671	205,031	213,757
Taxes	106,374	122,946	159,758	172,239	182,730
Social contributions	0	0	0	0	0
Grants	23,229	91,452	19,580	11,151	9,414
<i>Current</i>	11,897	26,305	18,715	11,151	9,414
<i>Capital</i>	11,333	65,148	864	0	0
Other revenue	72,579	36,952	21,334	21,642	21,613
EXPENSE	215,372	208,847	200,622	191,891	188,246
Compensation of employees	69,861	76,345	76,731	76,770	76,770
Use of goods and services	88,087	65,859	53,964	46,153	43,616
Depreciation	13,441	13,767	13,783	13,783	13,783
Interest	5,932	9,976	10,281	9,611	8,992
Subsidies	4,060	10,037	14,919	14,419	13,919
Grants	0	0	0	0	0
Social benefits	24,639	24,523	24,696	24,908	24,918
Other expense	9,353	8,339	6,248	6,248	6,248
NET OPERATING BALANCE	-13,190	42,504	50	13,140	25,511
<i>Plus</i> NON CASH APPROPRIATIONS					
Depreciation	13,441	13,767	13,783	13,783	13,783
CASH SURPLUS/(DEFICIT) FROM OPERATING TRANSACTIONS	250	56,271	13,833	26,923	39,294
CASH TRANSACTIONS IN NONFINANCIAL ASSETS					
Net Cash Applied to the Acquisition of Fixed Assets	35,153	99,793	19,121	15,897	15,042
Gross transactions in Non-Financial Assets	48,594	113,560	32,904	29,679	28,824
<i>Less</i> Non-Cash Transactions in Non-Financial Assets (Depreciation)	-13,441	-13,767	-13,783	-13,783	-13,783
NET (BORROWING)/LENDING	-34,902	-43,522	-5,289	11,026	24,252
CASH APPLIED TO THE NET ACQUISITION OF FINANCIAL ASSETS	13,102	-44,198	-16,449	-1,823	8,872
Domestic Transactions	13,102	-44,198	-16,449	-1,823	8,872
Foreign Transactions	0	0	0	0	0
CASH APPLIED TO THE NET INCURRENCE OF LIABILITIES	-47,968	675	11,160	12,849	15,379
Domestic Transactions	0	0	0	0	0
Foreign Transactions	-47,968	675	11,160	12,849	15,379
NET CASH FINANCING TRANSACTIONS	-34,866	-43,523	-5,289	11,026	24,252
<i>Statistical discrepancy</i>	36	0	0	0	0

5.1 GFS Net Operating Balance

The GFS net operating balance is equal to operating revenue less operating expenditure. Update to the 2021/22 actuals resulted in an operating deficit of \$13.2 million due to operating expenditure of \$215.4 million exceeding operating revenues collected at year-end of \$202.2 million.

Furthermore, updates to the 2022/23 HYEFU estimates have resulted in an operating surplus of \$42.5 million, which is \$3.3 million lower than the \$45.8 million reported at the time of the 2022/23 Budget. This is predominantly due to a significant reduction in tax receipts of \$16.4 million, mainly Company taxes, which is offset by an increase of \$8.7 million in other revenue due to the one-off receipt of vested interest \$2.3 million and general budget support of \$6.4 million.

As revenue increases with the expectation of recovery in revenue receipts (taxes) and expenditure decreasing steadily, the GFS net operating balance is forecast to remain at operating surpluses over the medium-term.

5.2 GFS Operating Revenue

Table 5-2 Total GFS Operating Revenue (\$'000)

	2021/22 Actual	2022/23 HYEFU Estimate	2023/24 Projection	2024/25 Projection	2025/26 Projection
Taxes	106,374	122,946	159,758	172,239	182,730
Social contributions	0	0	0	0	0
Grants	23,229	91,452	19,580	11,151	9,414
<i>Current</i>	11,897	26,305	18,715	11,151	9,414
<i>Capital</i>	11,333	65,148	864	0	0
Other revenue	72,579	36,952	21,334	21,642	21,613
Total Operating Revenue	202,182	251,351	200,671	205,031	213,757

Changes in government revenue forecasts are detailed in Chapter 4, and no changes to total Official Development Assistance funding have been recorded since the time of publication.

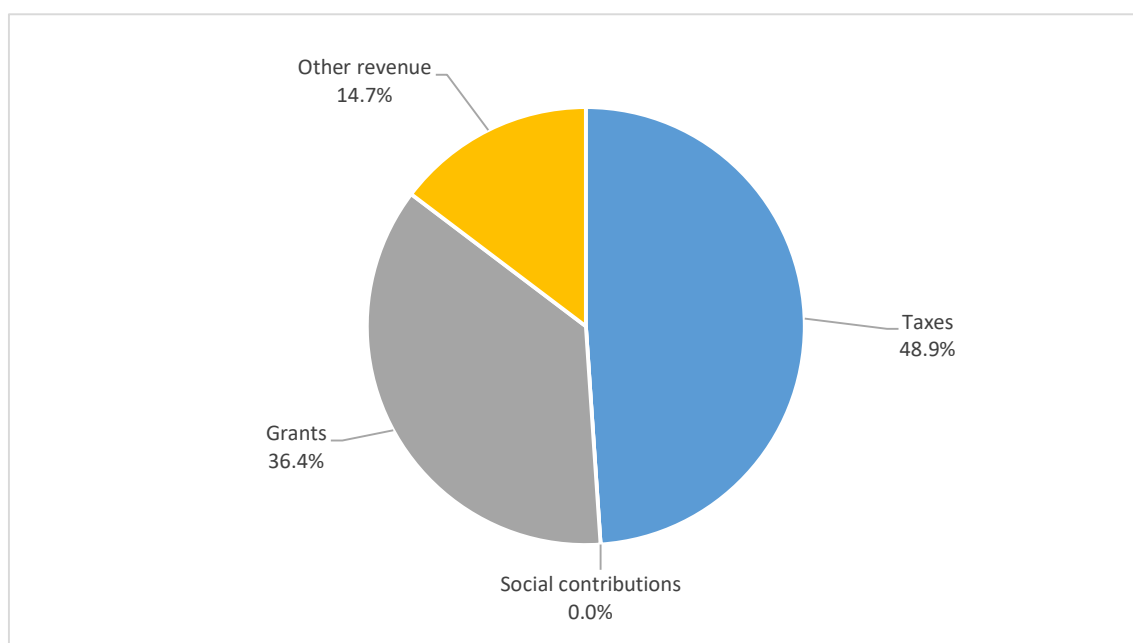
As shown in Figure 5-1, operating revenue largely consists of taxation receipts (48.9 per cent of total revenue in 2022/23 versus 52.6 per cent in 2021/22), grants from other governments (36.4 per cent in 2022/23 versus 11.8 per cent in 2021/22) and other revenues, which is inclusive of general budget support funding from New Zealand, the Infrastructure Trust Fund support from New Zealand, Government Agency trading revenues, interest and dividend receipts (14.7 per cent in 2022/23 versus 35.9 per cent in 2021/22).

GFS operating revenues in 2021/22 totalled \$202.2 million, of which \$106.4 million was taxation revenue. This also includes higher than anticipated revenues received in other revenue lines of \$6.4 million, predominantly due to increased fisheries revenue by \$4.1 million. Tax receipts have come in slightly lower than anticipated by \$1.2 million, mainly due to decreases in revenue received through Company tax (\$10.4 million) and Import levies (\$1.5 million), offsetting increases in revenue received through Income tax (\$5.4 million) and VAT tax (\$4.9 million).

These revenue streams help finance the ongoing operational expenditure of Government, with surpluses used for investing into activities such as infrastructure development projects or cash reserves.

Over the medium-term operating revenues are expected to recover, with tax revenue collections projected to increase to \$182.7 million by 2025/26. The gradual increases in tax receipts will offset the projected decreases in grant revenues and other revenues from 2023/24 onwards, noting that contractual agreements on grants typically come to an end after 3 years.

Figure 5-1 GFS operating revenue, 2022/23



5.2.1 GFS Operating Expenditure

Estimated operating expenditure has been revised down in 2022/23 to \$208.8 million from \$213.3 million reported at Budget (see Table 6-3), a total reduction of \$4.5 million. This captures anticipated savings in expenditure items such as the Airline Underwrite (\$7.0 million), the Economic Recovery Roadmap (\$2.6 million) and the COVID-19 medical response fund (\$2.5 million), offsetting expenditure increases in various expenditure items through approved Executive Orders (\$1.2 million), carry forwards (\$1.7 million) as well as an increase to the debt interest contribution to LRF (\$3.2 million).

Table 5-3 Total GFS Operating Expenditure (\$'000)

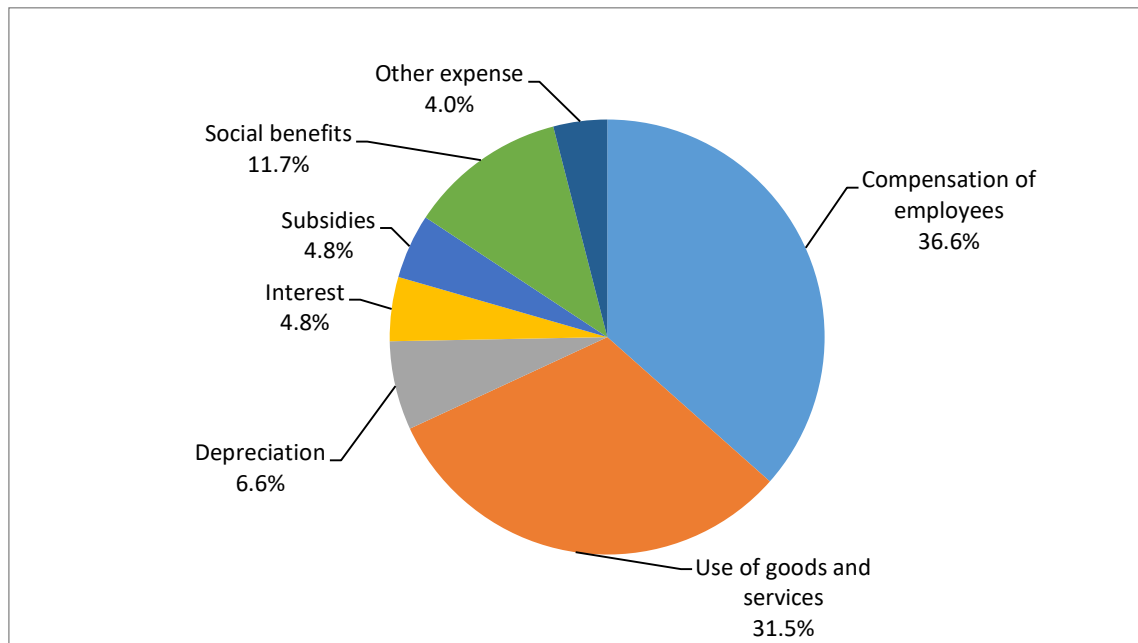
	2021/22 Estimated Actual	2022/23 HYEFU Estimate	2023/24 Projection	2024/25 Projection	2025/26 Projection
Compensation of employees	69,861	76,345	76,731	76,770	76,770
Use of goods and services	88,087	65,859	53,964	46,153	43,616
Depreciation	13,441	13,767	13,783	13,783	13,783
Interest	5,932	9,976	10,281	9,611	8,992
Subsidies	4,060	10,037	14,919	14,419	13,919
Grants	0	0	0	0	0
Social benefits	24,639	24,523	24,696	24,908	24,918
Other expense	9,353	8,339	6,248	6,248	6,248
Total Operating Expenditure	215,372	208,847	200,622	191,891	188,246

Total GFS operating expenditure for 2021/22 is reported at \$215.4 million, decreasing to \$208.8 million in 2022/23 before stabilizing over the medium-term to 2025/26 which is the result of short-term funding coming to an end including the Economic Recovery Roadmap Fund and the COVID-19 Medical Response Fund.

As shown in Figure 5-2, compensation of employees is the largest operating expenditure for Government, making up 36.6 per cent of total operating expenditure in 2022/23 followed closely by use of goods and services at 31.5 per cent. Total operating expenditure also comprises of social

benefits (11.7 per cent), depreciation (6.6 per cent) subsidies and interest expenses (4.8 per cent respectively), and other expenses (4.0 per cent).

Figure 5-2 GFS operating expenditure, 2022/23



5.2.2 Compensation of Employees

Expenditure on compensation of employees is estimated to be \$76.3 million in 2022/23 which is closely in line with the estimates reported at the time of the 2022/23 Budget.

5.2.2.1 Use of Goods and Services

The total expenditure for use of goods and services differs to the amounts reported in other chapters of the HYEFU Estimates as it includes recurrent ODA expenditures.

Expenditure under use of goods and services in 2021/22 was \$88.1 million, \$2.9 million lower than estimated at the time of Budget. Going forward forecast expenditure under use of goods and services are estimated to reduce over the medium-term which is mainly due to the reduction in recurrent ODA expenditure over the forward years as a result of contractual agreements coming to an end.

5.2.2.2 Consumption of Fixed Capital

Total depreciation over the medium-term is estimated to be \$13.8 million per year. This is mainly driven by technical adjustments made to Agency depreciation baselines.

5.2.2.3 Interest (Debt Servicing Payments)

Debt interest contributions to the Loan Repayment Fund (LRF) is estimated at \$10.0 million in 2022/23, an increase of \$3.2 million compared to budget (totalling \$6.8 million), which is mainly due to factoring changes to both interest and foreign exchange rates.

Going forward, debt interest expenses are estimated to increase before stabilizing over the forward years to account for the additional debt drawn to support Government's operating expenses including the Economic Recovery Roadmap and COVID-19 Medical Response Fund. Readers should refer to the Crown Debt Chapter for further information on debt and repayments.

5.3 GFS Non-Operating Items

Cash transactions in non-financial assets are transactions relating to capital. This spending includes investment into infrastructure, the purchase of plant and equipment, and investments in ICT by both the Crown and development partners. Total purchases of non-financial assets (excluding depreciation) are estimated to increase to \$113.6 million in 2022/23, which is largely attributed to the inclusion of the Infrastructure Trust Fund (ITF).

Cash transaction in non-financial assets are forecast to decrease in the forward years due to the reduction in ODA Capital Grant agreements. As shown above, ODA funding is agreed over a shorter forward time-period.

5.3.1 Net Borrowing / Lending and Cash Financing Transactions

The Net Borrowing/Lending Requirement outlines the amount of financing required to fund both operating and capital balances, with these funds being sourced from either asset (predominantly accumulated cash reserves) or liabilities (predominantly loan financing).

The net borrowing/ lending requirements for 2022/23 is estimated at \$43.5 million and will be funded by cash reserves. As the economy recovers over the forward period, the financing gap will decrease.

There are some smaller movements not captured in the GFS schedules, with most of these relating to the classification of reserves in the financial schedules. Most of the statistical discrepancy shown in the GFS operating Statement relates to timing issues between the projects' implementation and the funding received in the Crown account. The sum of the statistical discrepancy shown in the 2021/22 fiscal period is not considered to be significant.

5.4 Classification of Functions of Government

The Classification of the Functions of Government (COFOG) classifies Government expenditure data by the purpose for which the funds are used. This standard classification allows for comparisons on functional expenditure across different jurisdictions.

The COFOG has 10 main functions at the highest level and 69 functions at the second (sub-functional) level. Table 5-4 classifies the Budget to the sub-functional level for both Cook Islands Government spending and ODA, excluding categories without expenditure.

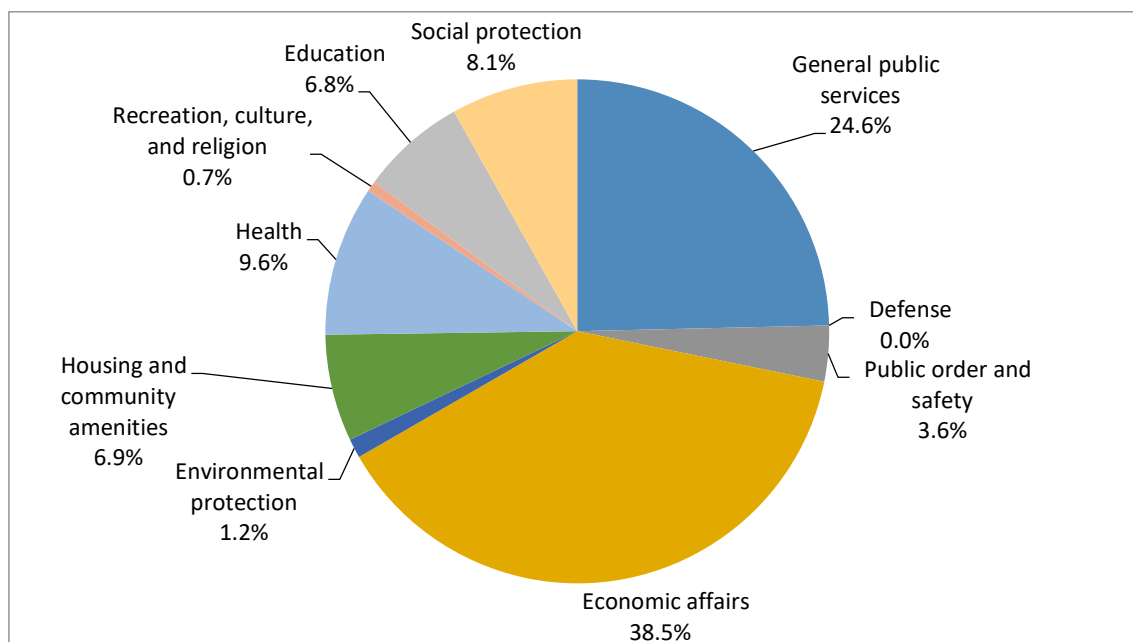
Table 5-4 Classification of Functions of Cook Island Government (\$000's)

Function of Government	2021/22 Actual	2022/23 HYEFU Estimate	2023/24 Projection	2024/25 Projection	2025/26 Projection
Cook Islands Government (CIG) Expenditure					
General public services	43,551	54,313	51,212	50,667	52,038
Executive and legislative organs, financial and fiscal affairs, external affairs	29,135	35,741	31,227	31,377	33,367
General services	7,536	7,595	8,688	8,663	8,663
R&D General public services	26	36	26	26	26
General public services	922	964	989	989	989
Public debt transactions	5,932	9,976	10,281	9,611	8,992
Public order and safety	9,212	11,036	10,674	10,674	10,674
Police services	4,823	5,666	5,721	5,721	5,721
Law courts	3,446	4,439	4,009	4,009	4,009
Prisons	944	931	943	943	943
Economic affairs	81,667	58,084	52,420	51,038	46,943
General economic, commercial, and labor affairs	50,191	11,756	10,531	10,331	9,331
Agriculture, forestry, fishing, and hunting	4,831	5,372	5,307	5,307	5,307
Fuel and energy	2,833	1,952	1,227	2,027	1,477
Mining, manufacturing, and construction	5,274	6,600	1,970	2,130	900
Transport	10,595	21,456	23,636	21,506	20,191
Communication	539	813	903	891	891
Tourism	6,883	9,555	8,266	8,266	8,266
R&D Economic affairs n.e.c.	392	452	452	452	452
Economic affairs n.e.c.	128	128	128	128	128
Environmental protection	2,135	2,138	2,178	2,178	2,178
Waste management	240	241	241	241	241
Protection of biodiversity and landscape	211	222	222	222	222
Environmental protection n.e.c.	1,683	1,675	1,715	1,715	1,715
Housing and community amenities	19,171	20,055	15,438	13,588	13,488
Community development	10,185	10,157	6,030	5,180	5,080
Water supply	5,067	5,653	5,389	4,389	4,389
Housing and community amenities n.e.c.	3,919	4,245	4,020	4,020	4,020
Health	25,644	24,155	20,605	20,644	20,644
Medical products, appliances, and equipment	4,172	2,995	495	495	495
Outpatient services	3,636	2,860	2,860	2,860	2,860
Hospital services	1,151	1,151	1,151	1,151	1,151
Health n.e.c.	16,685	17,148	16,098	16,137	16,137
Recreation, culture, and religion	2,103	2,008	2,138	2,138	2,188
Recreational and sporting services	395	441	441	441	441
Cultural services	1,709	1,567	1,697	1,697	1,747
Education	20,187	20,887	20,793	20,793	20,793
Pre-primary and primary education	2,899	3,013	2,663	2,663	2,663
Tertiary education	2,368	2,379	2,389	2,389	2,389
Education n.e.c.	14,920	15,495	15,741	15,741	15,741
Social protection	23,626	24,512	24,705	24,916	24,927
Sickness and disability	475	473	474	475	477
Old age	13,077	13,984	14,128	14,264	14,247
Family and children	7,430	7,413	7,490	7,565	7,591
Housing	74	84	84	84	84
Social exclusion n.e.c.	26	26	26	26	26
Social protection n.e.c.	2,543	2,532	2,502	2,502	2,502
Total CIG Expenditure	227,296	217,188	200,163	196,637	193,873

Function of Government	2021/22 Actual	2022/23 HYEFU Estimate	2023/24 Projection	2024/25 Projection	2025/26 Projection
Official Development Assistance (ODA) Expenditure*					
General public services	8,975	21,714	16,605	9,783	8,146
Economic affairs	9,984	60,680	846	323	323
Environmental protection	987	1,648	100	100	0
Housing and community amenities	130	1,167	370	352	352
Health	1,499	5,549	1,243	379	379
Recreation, culture, and religion	68	90	90	90	90
Education	74	0	0	0	0
Social protection	1,512	605	325	125	125
Total ODA Expenditure	23,229	91,452	19,580	11,151	9,414
TOTAL PUBLIC EXPENDITURE	250,525	308,640	219,743	207,788	203,288

The ratio of the combined Cook Islands Government and ODA spending in the 2022/23 HYEFU by the 10 main functional levels is presented in Figure 5-3.

Figure 5-3 Classification of Functions of Cook Island Government, 2022/23



Economic affairs make up 38.5 per cent (or \$118.8 million) of total public expenditure in 2022/23, \$6.3 million lower than the \$125.1 million reported at the time of Budget. Expenditure areas that come under Economic affairs include transport expenditure (\$21.5 million), general economic, commercial and labour affairs (\$11.8 million) and tourism expenditure (\$9.6 million).

General public services is the next largest area of public expenditure at 24.6 per cent of total public spending (or \$76.0 million), with the Cook Islands government administration costs being the main driver of expenditure in this area.

6 Economic Update

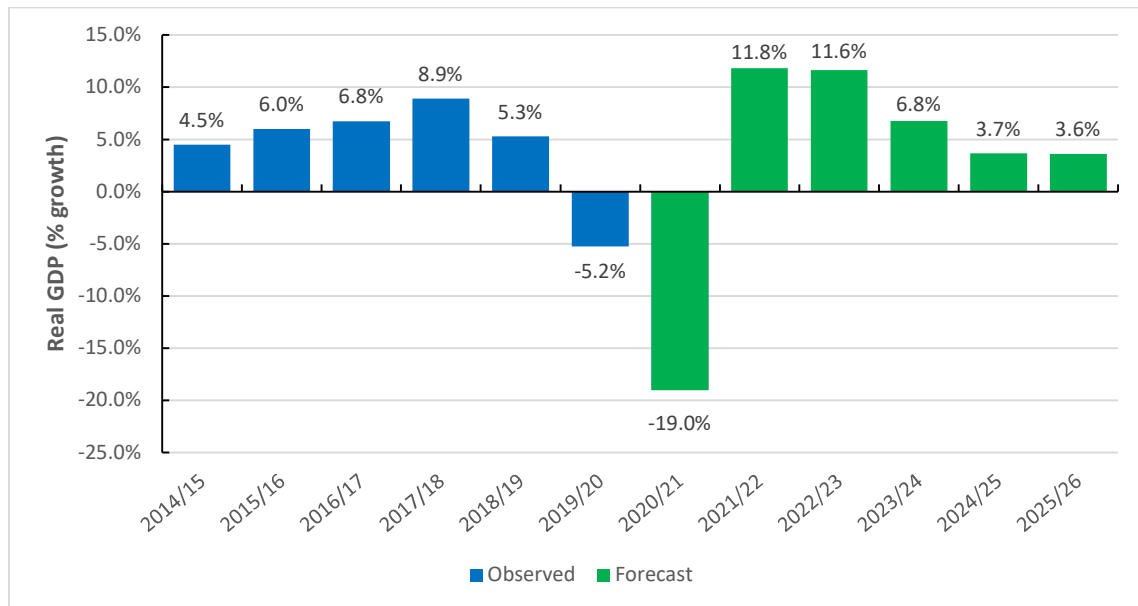
6.1 Overview

6.1.1 Performance

The Cook Islands' economy was one of the world's most severely impacted by the COVID-19 pandemic and the associated restrictions on travel. Given the role tourism plays in the economy (tourism is responsible for around 65 per cent of direct economic activity and around 85 per cent of direct, indirect and induced economic activity), this impact was predictable, and the challenge faced was severe. The early part of the 2022/23 fiscal period saw the first green shoots of economic recovery, as visitors came back to the Cook Islands, bringing back much-needed business. At that same time, businesses were weaned from Government support packages.

This recovery led to estimated growth of 11.8 per cent in real (inflation-adjusted) Gross Domestic Product (GDP) in the 2021/22 fiscal period. This took us back to 85 per cent of pre-pandemic GDP, representing a strong rebound from the largest decline recorded in Cook Islands history. Significant Government support and stimulus through the Economic Response Plan (ERP) and subsequent Economic Recovery Roadmap (ERR) softened the decline, but support largely came to an end in April 2022. From this time, visitors returned in significant numbers, with visitors from New Zealand higher than expected throughout the 2022 high season in particular. The transition into recovery was relatively smooth given the international economic situation. The growth pattern is slower in the forward years, after the large spikes in growth rates in the recovery years.

Figure 6-1 Annual percentage change in Real GDP



The economy's strong growth prior to COVID-19 can be seen in Figure 6-1, with economic growth achieving 8.9 per cent in 2017/18 up from a low of 4.5 per cent in 2014/15. This was driven by record visitor arrivals, with 2009/10 being the first year that total visitor arrivals exceeded 100,000, and 2016/17 breaking the 150,000 barrier. This growth was generated from the New Zealand and Australian markets, which grew by 34 per cent and 38 per cent respectively over the four years prior to the pre-COVID-19 peak. The economic statistics show the industry-level impacts associated with the COVID-19 pandemic, with the largest economic contraction in Cook Islands history, and almost one quarter of the economy wiped off – despite government stimulus of a similar size.

Throughout these two years, the trade sector (retail and wholesale), construction industry, finance industry and the broad public sector (public administration, health, education and the social services sector) have been the key drivers of economic activity in the absence of tourism. Agriculture also weathered the downturn relatively well by shifting focus to the domestic market. This resilience may yield long-term benefits if production can keep pace with the return of tourism.

One salient feature of the past year has been inflation. The Cook Islands economy has been comparatively well insulated from the effects of rising prices compared to other economies. Nonetheless, prices of fuel (and therefore electricity) were affected by the impacts of the war in Ukraine. Consumer prices in general were affected by supply constraints and broader price pressures as economic activity rose with the return to open borders. The estimates of consumer price inflation were 4.2 per cent in 2021/22 (from 2.2 per cent in 2020/21), and forecasts a spike of 9.4 per cent in 2022/23 before easing to a more typical 2.3 per cent for 2023/24.

The Cook Islands graduated from the Organisation for Economic Cooperation and Development's (OECD) Official Development Assistance (ODA) eligibility list in January 2020. Since graduating, the Cook Islands Government has worked hard to develop strong arrangements with development partners in this changed environment.

A summary of key indicators is provided in Table 6-1 for the budget year and forward years of the 2022/23 budget.

Table 6-1 Summary of Economic Indicators

Economic Indicator	2020/2021	2021/2022	2022/2023	2023/2024	2024/2025	2025/2026
	Act.	Est.	Proj.	Proj.	Proj.	Proj.
Economic Activity						
Nominal GDP (\$'000)	431,776	480,015	546,914	602,559	624,582	657,926
Percentage change (YOY)	-14.6	11.2	13.9	10.2	3.7	5.3
Real GDP ¹³ (2016 prices, \$'000)	407,782	455,992	509,042	543,472	563,328	583,623
Percentage change (YOY)	-19.0	11.8	11.6	6.8	3.7	3.6
Inflation (CPI)						
Percentage change (YOY)	2.2	4.2	9.4	2.3	1.2	1.7
Construction/Capital Investment						
Construction value-add (\$'000)	15,410	12,084	13,001	14,589	15,196	16,066
Productive Sector Indicators						
Visitor Arrivals	7,538	59,657	127,545	160,161	168,976	170,795
Percentage change (YOY)	-93.9	691.4	113.8	25.6	5.5	1.1
Estimated Visitor Expenditures (\$'000)	11,843	92,587	207,827	272,162	290,869	298,661
Agriculture & fisheries value-added (\$'000)	12,844	10,742	11,354	11,872	12,279	12,702
External Sector						
Merchandise Trade Balance (\$'000)	-152,004	-96,927	-94,265	-129,530	-169,704	-177,592
Services Trade Balance (\$'000)	-4,904	96,553	179,932	241,797	259,765	266,471
Exchange Rate (USD/NZD Average)	0.7176	0.6900	0.6070	0.6430	0.6710	0.6600

6.1.2 Outlook

The Government's immediate economic priority is recovery, now that we have moved away from direct support to the economy. With borders being open to the world (through New Zealand) since January 13 2022, the recovery has been faster than anticipated. As noted above, the 2022/23 fiscal year will see GDP growth of 11.6 per cent, and the growth trend is anticipated to continue in 2023/24

¹³ Due to some technical issues regarding the 2020/21 GDP deflators, the Real GDP published here differs from that published on the MFEM website

due to improved access to markets. GDP growth is projected to be 6.8 per cent before levelling out to 3.7 per cent in 2024/25 and 3.6 per cent in 2025/26.

Keeping this growth slightly constrained is the impact of inflation. Whilst the nominal GDP outlook appears strong, some of what appears to be growth is in fact growth in prices. For more discussion of the impact of inflation on the Cook Islands' economy, please see section 6.3.2 below.

The Government's fiscal stance was strongly expansionary in 2020/21 before moving to be less expansionary in 2021/22, especially when the borders reopened. Now, it is moving toward a neutral stance as is appropriate in the economic climate, with a more contractionary stance likely over the medium-term in order to replenish reserves and repay debt.

6.1.3 Changes since the 2022/23 Budget

The HYEFU forecasts were finalised in November 2022, and rely on conservative assumptions around the return of tourists. Of note, tourist routes to the Cook Islands opening from the Australian and Northern Hemisphere markets in the last quarter of 2022/23 may see higher numbers than predicted.

The relatively minor differences between Budget and the HYEFU forecast are primarily caused by two broad factors - movements in world prices, in particular of fuel, energy and flour, flowing through into the Cook Islands economy, and the pace of the tourism recovery. The price increases will have the effect of suppressing economic activity slightly, taking the edge off the strong recovery seen so far in tourism.

Table 6-2 Real GDP growth (percentage change, year on year)

Forecast	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26
2022-23 Budget	-5.2%	-18.2%	11.5%	13.9%	7.4%	3.7%	3.5%
2022-23 HYEFU	-5.2%	-19.0%	11.8%	11.6%	6.8%	3.7%	3.6%

6.2 The Global Economy

The Cook Islands is a small, open economy whose economic growth is heavily reliant on the export of goods and services to a few key partner countries particularly New Zealand, Australia, and the United States of America. This reliance has been clearest with the COVID-19 pandemic impacting the movement of people, as well as trade, and the current inflationary pressure. Inflation is now at or near multi-decade highs in many parts of the world. As such, it is necessary to examine the economic conditions and outlook for our key partners, as well as the regional and global economy.

6.2.1 New Zealand

The Reserve Bank of New Zealand (RBNZ) rapidly raised the official cash rate (OCR) from the emergency low level of 0.25 per cent held during the pandemic¹⁴ to 4.25 per cent currently¹⁵, largely in an attempt to address rising inflation. The RBNZ has stated that these higher rates are needed to meet the inflation and employment objectives. New Zealand is facing the challenges of global supply shortages leading to price rises and shortages of labour while domestic demand has remained strong. Combatting inflation with higher interest rates and trying to negotiate a 'soft landing' will be a key consideration for the RBNZ.

Tightening monetary policy has been the major step to combat rising inflation in New Zealand – which reached 7.2 per cent through the year to September 2022.

¹⁴ RBNZ, Monetary Policy Statement 6 October 2021.

¹⁵ RBNZ, Monetary Policy Statement 23 November 2022.

In November 2022, the RBNZ commented in the *Monetary Policy Statement (MPS)* that “consumer price inflation remains too high... The [Committee] is aiming to reduce demand in the economy so that it better aligns with the economy’s ability to sustainably supply goods and services. Higher interest rates are intended to reduce household and business spending with the usual lag of several quarters.” The RBNZ noted that higher interest rates globally are also intended to ease demand offshore as central banks try to lower inflation in their own economies. Lower global growth is expected to contribute to lower business investment and lower demand for New Zealand’s export goods over the coming years.¹⁶

In New Zealand, construction activity had been strong but RBNZ’s November cash rate increase and words of warning about recession have had an immediate impact in the real estate market. Leading indicators¹⁷ now suggest this may slow, with a fall in forward orders. Partially offsetting a general business slowdown in response is the return of tourists from around the world to New Zealand.

Household consumption is expected to tail off in response to higher prices and interest rates, while a key constraint on the NZ economy is labour shortages which have been contributing to rising wages.

New Zealand’s unemployment rate fell to its lowest recorded level in the December 2021 quarter and has remained close to record low levels since, with the September 2022 quarter at 3.3 per cent; this is considered to be above full employment and not sustainable. Further pointing to tightness in the labour market is the underutilisation rate at 9.0 per cent, the lowest since 2007.

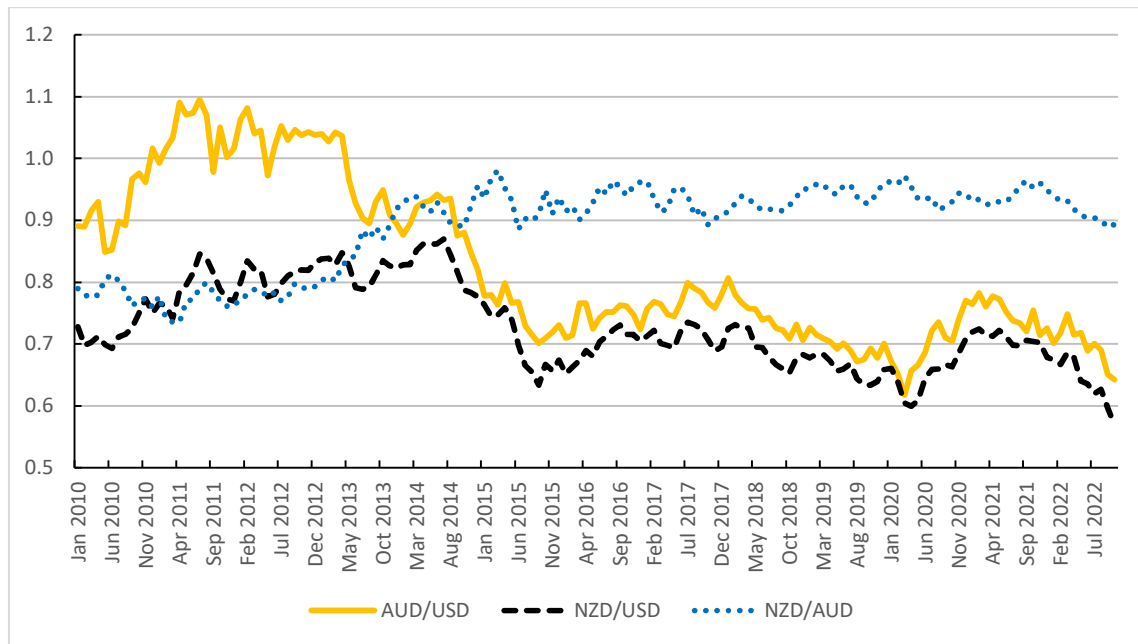
These pressures have resulted in the RBNZ raising rates faster than they projected earlier in 2022, and currently projecting the OCR to reach 5.5 per cent by the September quarter of 2023, remaining around that level until mid 2024.

The MPS forecasts real GDP growth of 3.0 per cent in the year to March 2023, falling from 4.1 per cent in the previous year. The years to March 2024 and March 2025 are expected to show slow GDP growth of 0.8 per cent and 0.9 per cent. Consumer Price Inflation is expected to have peaked in the September 2022 quarter at 7.2 per cent, falling into the 1 to 3 per cent by mid-2024.

¹⁶ RBNZ, Monetary Policy Statement 23 November 2022.

¹⁷ See, for example, REINZ & Tony Alexander Real Estate Survey - December — REINZ BLOG.

Figure 6-2 US Dollar exchange rate, New Zealand and Australia



6.2.2 Asia-Pacific Region

The Asian Development Bank's September 2022 *Asian Development Outlook Update 2022 (ADO)* acknowledges that recovery in the region continues, but is facing some global headwinds – through impacts of the Russian war in Ukraine and tighter monetary policy in advanced economies. Consumption spending is rising as restrictions have largely been eased.

Inflation trended up in the region, at 4.0 per cent across the region in the first half of 2022 – and risks around the Ukraine situation and the impact on energy prices remain. On the positive side, tourism growth around the region is picking up with most economies now open for travel, however this only partially offsets the impact of tightening in the region.

Overall, the ADB has revised the forecasts of economic growth for developing Asia down to 4.3 per cent in 2022 (from 5.2 per cent) and 4.9 per cent in 2023 (from 5.3 per cent), with most of this coming from downward revisions in East Asia (especially China, as the strict responses to COVID-19 continue).

Inflation forecasts in the region have been revised upward to 4.5 per cent in 2022 (from 3.7 per cent), and 4.0 per cent in 2023 (from 3.1 per cent), reflecting the rising energy and food prices. This is expected to remain lower than much of the world, but still rising from previous expectations.

The ADB considers risks to the outlook to be 'skewed to the downside' with faster than expected monetary policy tightening having impacts through exchange rate depreciations leading to balance of payments difficulties. Other risks mentioned include increased impacts from the war in Ukraine, debt fragility in some economies, climate change impacts and a range of geopolitical tensions.

Pacific

In contrast to the region as a whole, the ADB has revised economic growth forecasts for the Pacific region upward to 4.7 per cent in 2022 (from 3.9 per cent) and 5.5 per cent in 2023 (from 5.4 per cent). These revisions are led by stronger outlooks in Fiji in particular and the Cook Islands as tourism rebounds. Partially offsetting this are downward revisions in Samoa, Solomon Islands, Palau and Tonga.

This is coupled with higher inflation forecasts for the Pacific, with 6.2 per cent in 2022 (up from 5.9 per cent) and 4.8 per cent in 2023 (from 4.7 per cent).

Australia

In December 2022, the Reserve Bank of Australia (RBA) announced an increase of its cash rate to 3.10 per cent in response to growing inflationary pressures, both globally and in the Australian economy. This is combined with the unemployment rate falling to 3.4 per cent in October (latest available data), which is considered below the rate of full employment putting further pressure on the economy and tight labour market. The RBA expects inflation to peak towards the end of the year, and decline over the forecast period (to December 2024), with growth slowing and unemployment rising slightly. Inflation is being driven by both supply issues, and overheating in the Australian economy – with unemployment around a 50-year low, and participation rates near record highs. In 2023, the RBA expects (real) GDP growth to fall from 3 per cent in 2022 to 1.5 per cent, reflecting the impact of higher interest rates, inflation on real wages and the global economy slowing as well.

In its November 2022 Statement on Monetary Policy, the RBA reported GDP growth expectations of 2 per cent over 2022/23 (revised down from previous forecasts) and 1.5 per cent in 2023/24. Unemployment is expected to creep upwards towards the level considered ‘full employment’, to 4 per cent by June 2024, with inflation falling to 4.25 per cent (year-on-year) by the same time.

6.2.3 Global

The IMF’s October 2022 *World Economic Outlook* presents a subdued view of global growth prospects, with more than a third of the global economy expected to contract this year or next and growth in the three largest economies (USA, EU and China) stalling. The Russian invasion continues to have impacts on global markets – particularly relating to energy prices in Europe, and global food prices.

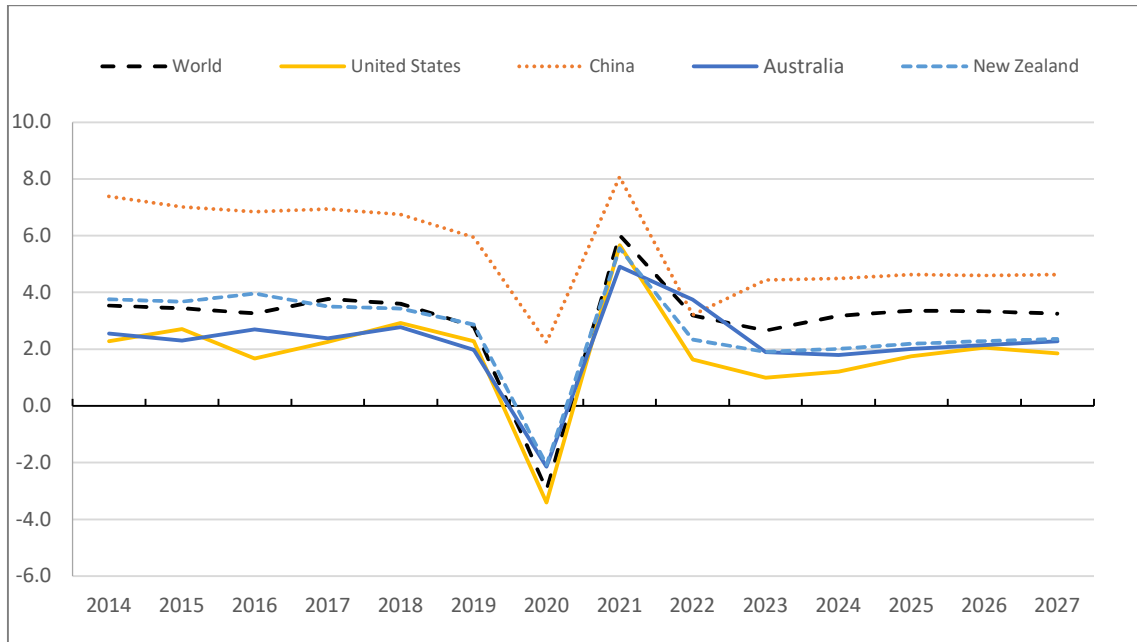
An unusually synchronised tightening of monetary policy across much of the world and the slowdown in China has combined with a strengthening of the US dollar against many currencies, impacting cost of living in the short-term for many markets (even though the tightening should reduce inflationary pressures eventually).

The IMF estimates that global output growth will slow from 6.0 per cent in 2021 to 3.2 per cent in 2022 and 2.7 per cent in 2023 – on the back of contractions in USA, EU and the impact of COVID-19 outbreaks and subsequent lockdowns in China. Outside of the global financial crisis and the acute parts of the pandemic, this is the weakest economic outlook since 2001. Risks remain tilted to the downside as well, with over-tightening of monetary policy, potential US dollar appreciation and global inflation pressures – particularly tied to Russian energy exports as well as the possibility of an outbreak of COVID-19 all mentioned.

The IMF does mention that fiscal policy should remain constrained, but providing support to the most vulnerable through the cost-of-living crisis is likely necessary. Growing debt-distress will require a ‘meaningful improvement in debt resolution frameworks.’

Beyond 2023, the IMF expects GDP growth to stabilise at around 3.3-3.4 percent in the medium-term (see Figure 6-3).

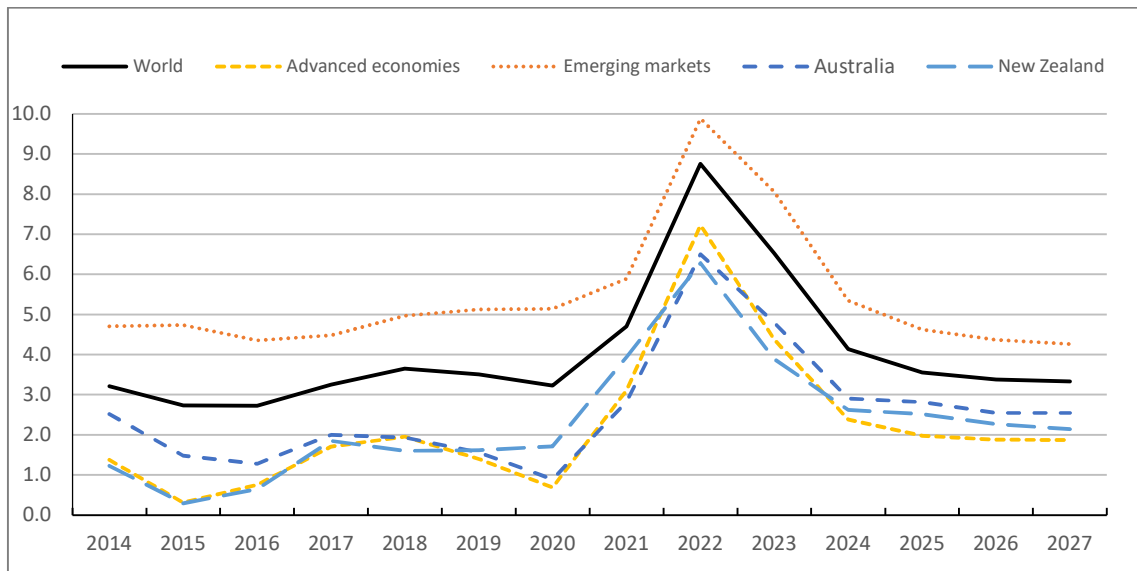
Figure 6-3 IMF GDP growth estimates, selected countries



The IMF notes the importance of structural reforms for medium-to-long-term strengthening of economies as well as addressing the constraints leading to inflation in the immediate term. Productivity enhancing reforms would provide important support to fighting inflation, while moves to speed up transition of energy to green sources will have long-term payoffs.

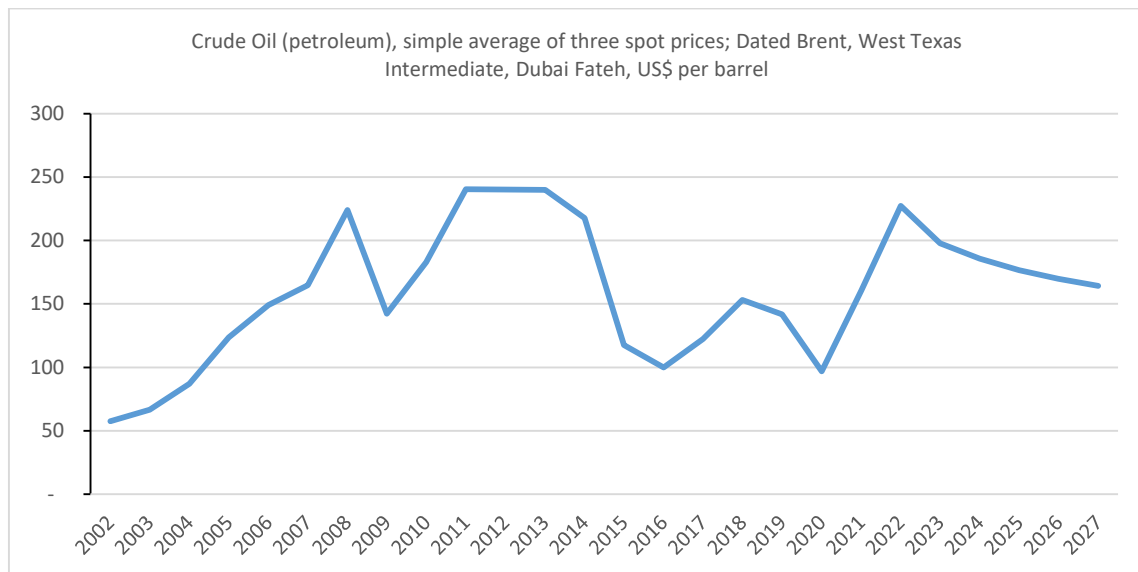
The IMF estimates global inflation to have risen to 4.7 per cent in 2021 (from 3.2 per cent in 2020). This is forecasts to spike further to 8.8 per cent in 2022 (up from 7.8 per cent previously forecast), before easing slightly to 6.5 per cent for 2023 and 4.1 per cent in 2024. For advanced economies, the 2022 forecast is 7.2 per cent growth, followed by 4.4 per cent in 2023 and stabilising at or below 2.0 per cent from 2025. For emerging markets, the spike is expected to peak at 9.9 per cent in 2022, and ultimately settle around 4 and a half per cent in the outer forecast years (see Figure 6-4).

Figure 6-4 IMF inflation estimates, selected groupings and countries



IMF oil price forecasts show that the spike in fuel prices this year are expected to reduce over time. For example, the IMF projects average oil prices at US\$96.80¹⁸ in 2022 and US\$83.50 in 2023. Oil prices are expected to decline thereafter as the impacts of the war dissipate (see Figure 6-5).

Figure 6-5 IMF oil price estimates, 2000 to 2027, index, 2016 = 100



6.3 Cook Islands Economy

6.3.1 Structure and Performance

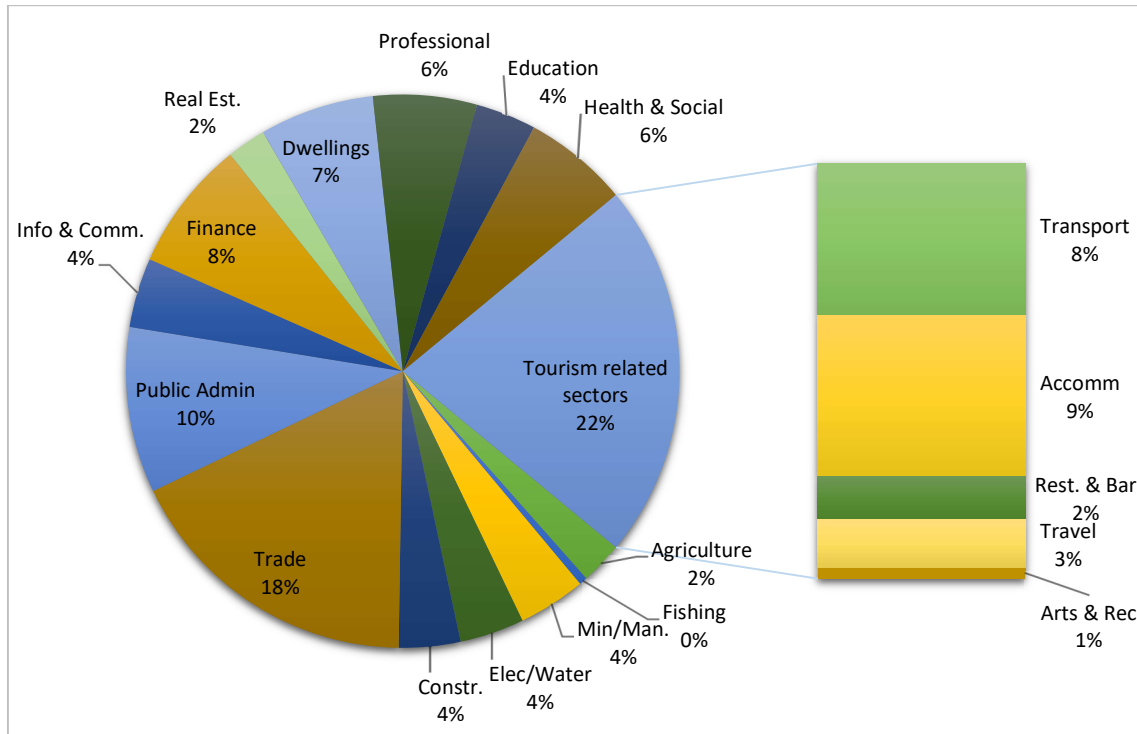
The Services sector¹⁹ accounts for a large proportion of activity in the Cook Islands' economy, with 85.8 per cent of nominal GDP for the year ended March 2022 in this sector. This sector of the economy includes key industries such as Trade (17.6 per cent in the year to March 2022), Accommodation (8.5 per cent), and Public Administration (9.7 per cent).

The make-up of the Cook Islands economy by industry is shown in Figure 6-6, and the dominance of the services sector is clear, as is how other sectors such as Agriculture (2.5 per cent) and Construction (3.6 per cent) make up smaller, but strategically important parts of the economy. The period in question also shows that 22 per cent of GDP is closely tourism-related, which is down from 34 per cent in the 2019 calendar year, due to the effects of the pandemic.

¹⁸ West Texas Intermediate

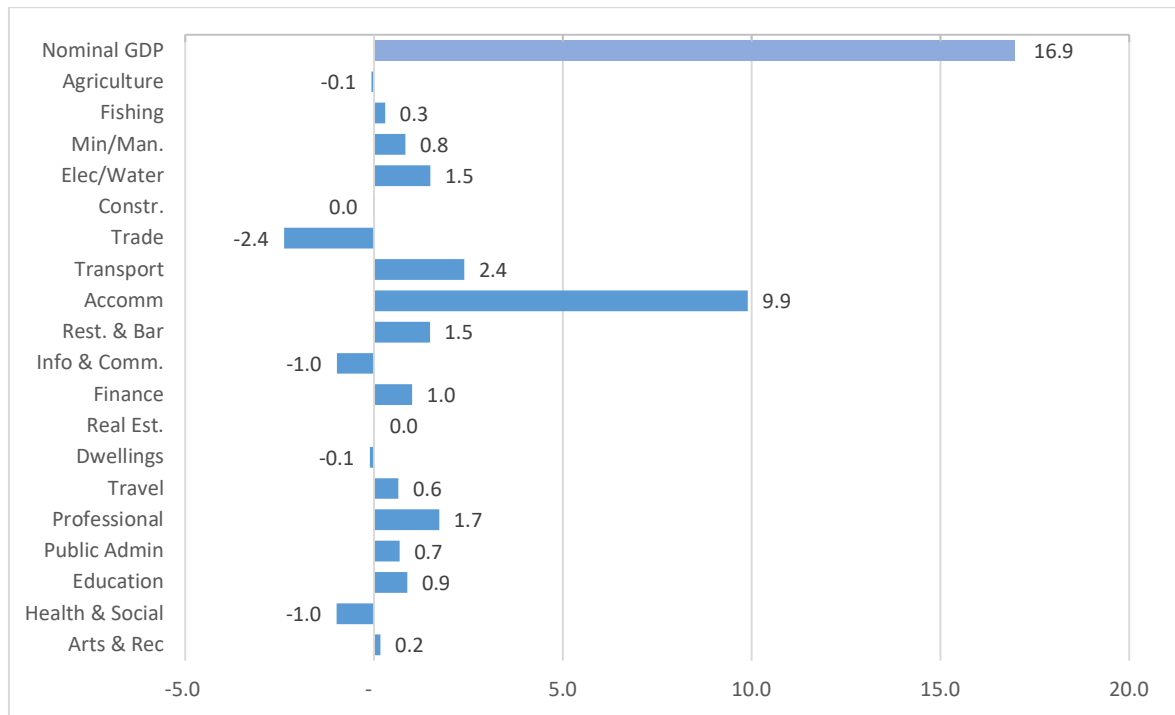
¹⁹ The 'services sector' comprises Trade, Transportation, Accommodation Services, Restaurants and Bars, Information and Communication, Finance and Insurance, Real Estate, Ownership of dwellings, Travel Agents & Tour Operators, Professional & Administrative Services, Public Administration, Education, Human Healthcare and Social Work and Arts, Recreation & Other Services.

Figure 6-6 Cook Islands economy by industry, 12 months to March 2022



In the year to March 2022, the largest contribution to recovery has been the Accommodation sector, which contributes 9.9 percentage points of the 16.9 per cent total (see Figure 6-7). This is to be expected as this sector was the hardest hit in the pandemic, so this growth is largely a rebound. Other sizable contributions to growth are driven by rising prices in Transport (2.4 percentage points) and Electricity (1.7 percentage points), with underlying activity in Professional Services (1.7 percentage points) and Restaurants & Bars (1.5 percentage points) also increasing. Partially offsetting the growth are declines from Trade (2.4 percentage points – possibly a reflection of restocking activity by businesses) and Information and Communications and Health and Social Services (both 1.0 percentage points).

Figure 6-7 Contribution to nominal growth in the year to March 2022 (percentage point)



6.3.2 Prices and inflation

Over the past six months inflation in the Cook Islands has risen to levels not seen in a long time, putting pressure on households and businesses to make ends meet. This is measured by the consumer price index (CPI), which the Cook Islands Statistics Office reports on a quarterly basis. On a year-average basis in 2021/22, the CPI grew by 4.2 per cent (Figure 6-8), but this belies the higher price growth at the end of that period, and especially in the September quarter of 2022. Over the 12-months to September 2022, overall prices have risen by 15.3 per cent – by far the fastest growth in prices seen for over a decade.

This inflation is largely being driven by global factors, with supply constraints as vaccine availability allowed much of the world to move out of lockdowns, and especially increased fuel costs after the Russian invasion of Ukraine. These impacts were slower in reaching the Cook Islands due to factors such as being at the end of the supply line, and the role played by the Price Tribunal in smoothing fuel price fluctuations. This was most substantially felt in the Cook Islands in the year to the September quarter of 2022, which saw Transport prices rise by 24.2 per cent. This took longer to flow through to other prices (such as Food and Energy), but in the June and September quarters, these sectors also saw rapidly rising prices.

Over the year to September, Food and Non-alcoholic beverage prices have risen by 21.5 per cent, while Housing, Water and Utilities (energy) prices have risen by 18.6 per cent. At the other end of the spectrum, Communication prices have only risen by 0.8 per cent in the same time.

World oil prices have now fallen to a level similar to January 2022 (prior to the invasion), and fuel prices are coming down as a result. These movements have begun to be felt in the Cook Islands, with the most recent Price Order, issued on November 25, showing a reduction in unleaded petrol prices of 11.5 per cent for Rarotonga, and 9.4 per cent for Aitutaki and around 9 per cent in the rest of the Outer Islands, with similar falls in diesel prices. This is expected to be a sign of this pressure abating slightly from this point onward, with price increases less likely – however the high price level is likely to remain for some time.

Figure 6-8 Cook Islands CPI, year average, 2011/12 – 2021/22 (percentage change)

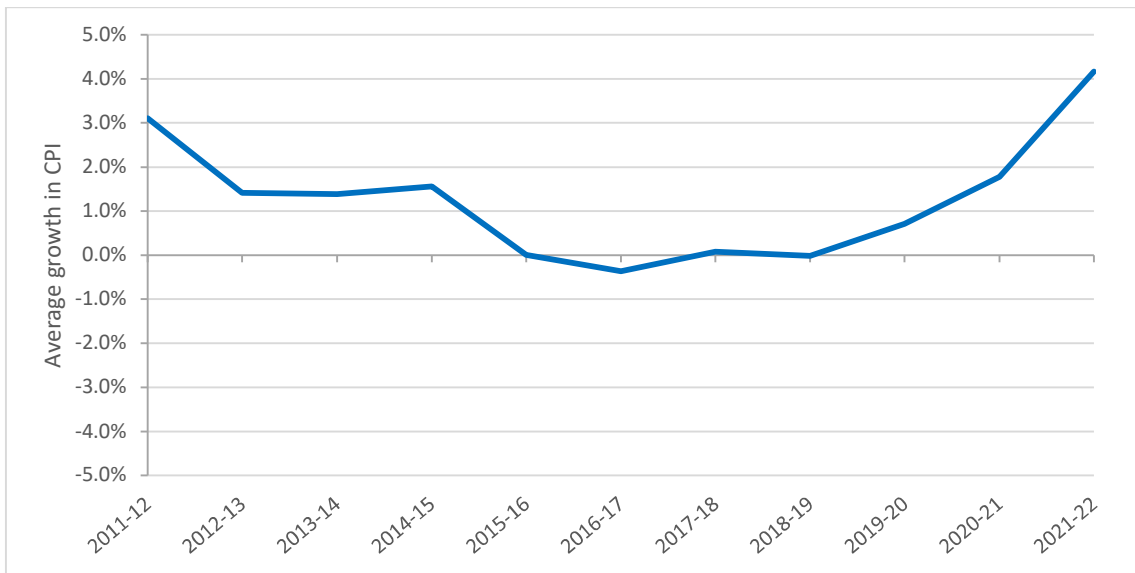
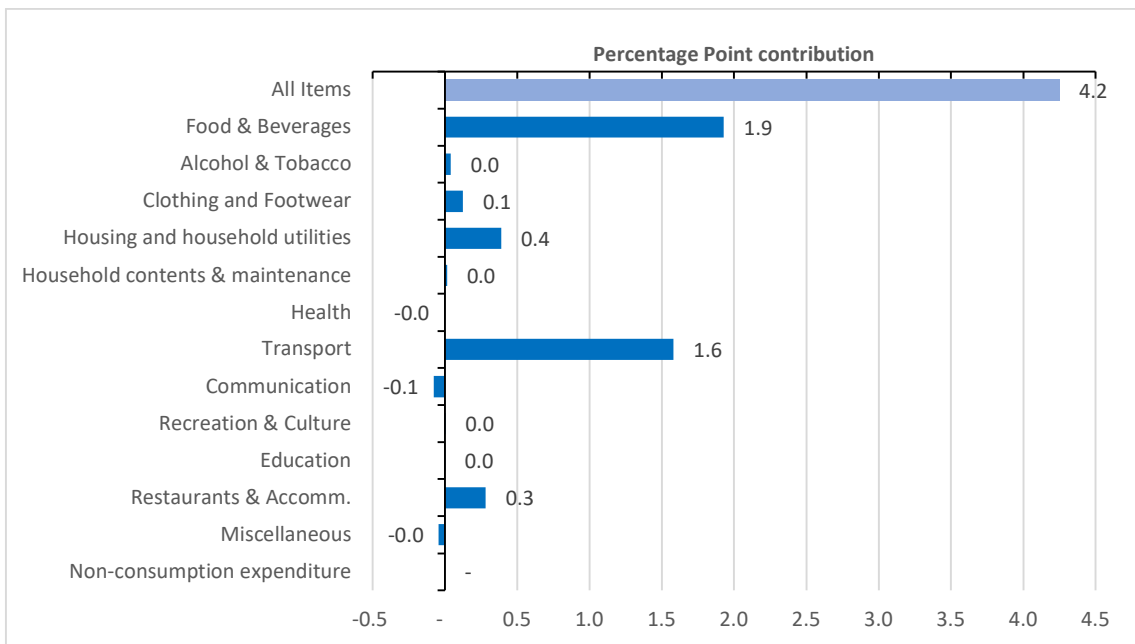


Figure 6-9 shows the contribution to aggregate inflation in 2021/22 by major category. In 2021/22, the largest contributors to price growth were the Food & Beverages sector, and the Transport sector.

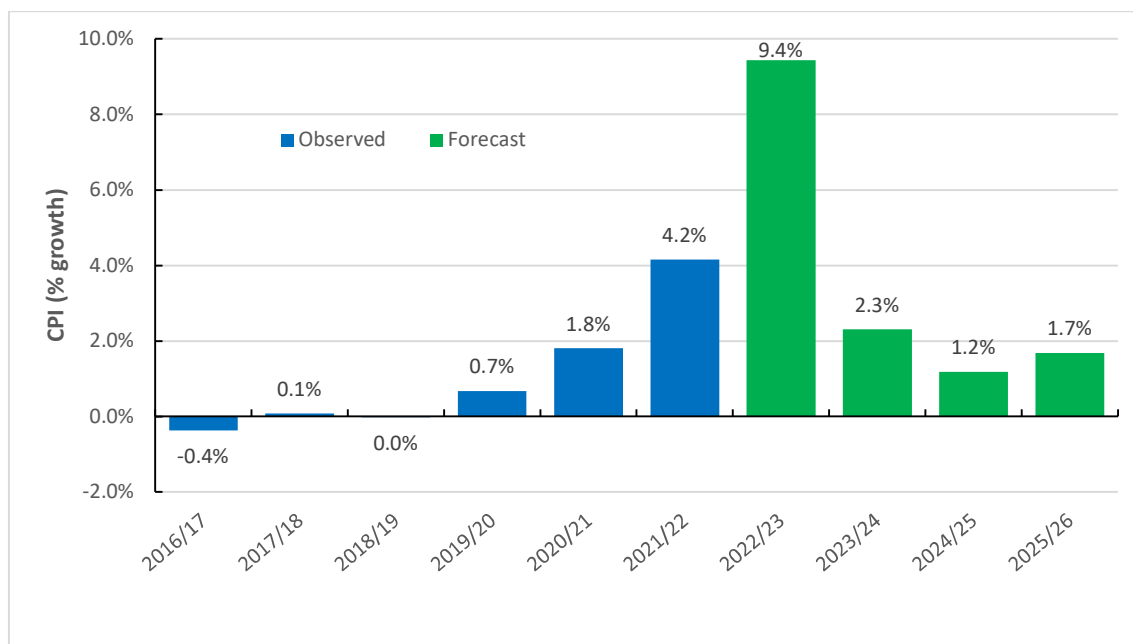
Figure 6-9 Contribution to 2021/22-year average inflation (percentage point)



Inflation forecasts

Overall, as shown in Figure 6-10, inflation is projected to increase substantially in 2022/23 to 9.4 per cent – with the majority of this growth having occurred in the September quarter already (see above). This large inflationary spike is expected to wane after this year, with price growth of 2.3 per cent forecast in 2023/24, and 1.2 per cent in 2024/25 as fuel prices have begun to fall back toward pre-Russian invasion levels.

Figure 6-10 Annual average change in Cook Islands CPI (percentage)



6.3.3 Trade in Goods

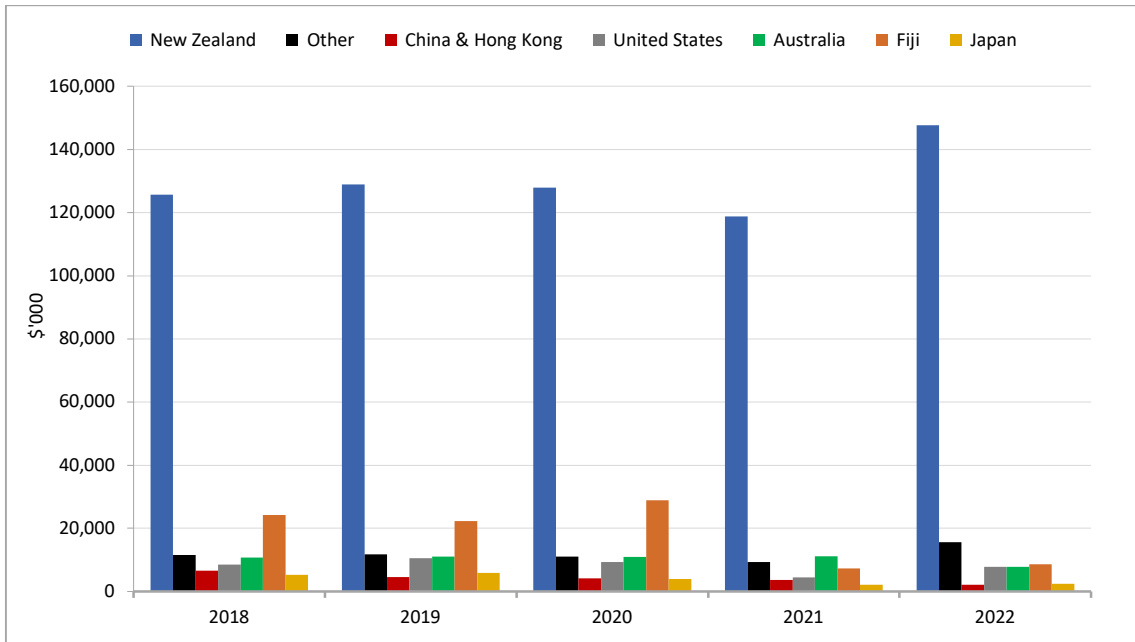
6.3.3.1 Goods imports

The Cook Islands’ size and geography means the country is highly reliant on imported goods to provide a range of goods and services. This has been particularly acute with the rising prices around the world impacting the Cook Islands as well.

The pandemic saw a reduction in imports due to lower demand as a result of the lack of tourists, with total imports in the year to June 2021 being over 18 per cent lower than each of the years before and after it. This represents \$35 million to \$39 million less in imports across the year. The year to June 2022 saw imports return to pre-pandemic levels of \$191.8 million (compared to \$196.3 million in the year to June 2020, and \$156.8 million in the year to June 2021).

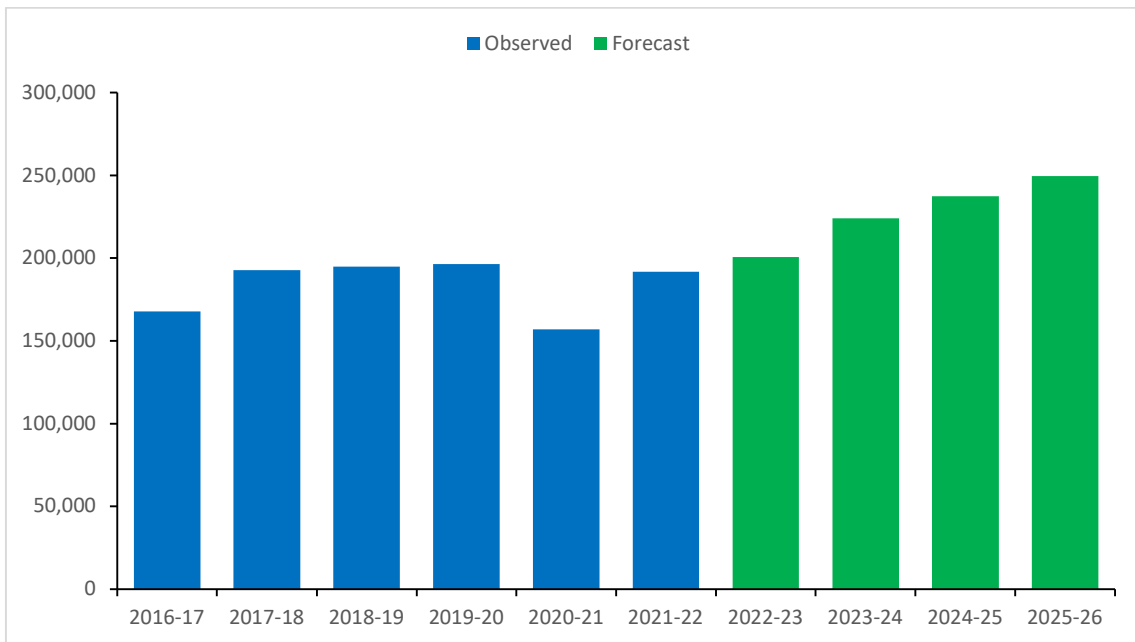
The largest percentage increase came from imports from the United States (72.8 per cent) and ‘Other’ markets (66.3 per cent) – though both of these markets are relatively small, representing only 12.1 per cent of total imports for the year. The largest increase in terms of total value is from New Zealand, where the majority of imports are sourced – rising by \$28.9 million (see Figure 6-11).

Figure 6-11 Import value by country of origin, year to June (\$'000)



Import growth is expected to follow a similar (though more muted) profile to visitor arrivals, with the increase of people leading to an increasing demand for goods in tourism-related sectors. 2022/23 is expected to see moderate growth of 4.7 per cent, while the outer forecast years continue to see steady import growth, tracking in line with general economic activity (see Figure 6-12).

Figure 6-12 Value of total imports, annual, 2016/17 to 2025/26, year to June (\$'000)

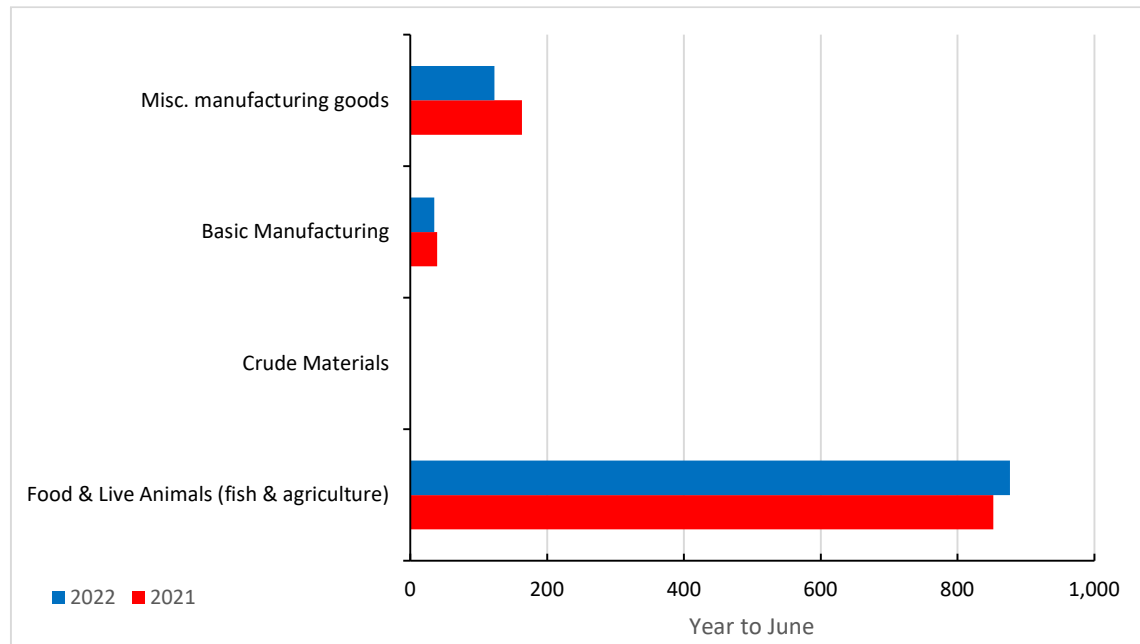


6.3.3.2 Goods exports

Total goods exports in the year to June 2022 fell only slightly 1.8 per cent from the year to June 2021 – from \$1.1 million to \$1.0 million (after adjustments to remove fishing exports from foreign boats which do not make landfall in the Cook Islands).

This decline has been mostly in Miscellaneous Manufacturing, with Food and Animals increasing slightly over the year, while Basic Manufacturing remained the most stable (see Figure 6-13). Looking forward, goods exports are expected to remain at quite low levels.

Figure 6-13 Major goods exports, 2021 and 2022, year to June (\$'000)



6.3.4 Tourism

6.3.4.1 Aggregate visitor activity

The closure of the Cook Islands borders in March 2020 significantly affected the tourism industry, bringing many aspects of it to an almost-halt. Visitor arrivals in pre-COVID years showed solid growth, which was largely driven by an increase in visitors from New Zealand and the United States.

Since the border re-opened on 13 January 2022 for visitors through New Zealand, there has been a steady number of arrivals, primarily from New Zealand (and some from Australia), with numbers building from around 8,000 from April 2022 to almost 15,000 visitors in July 2022. This has seen the strongest monthly tourist numbers from New Zealand ever recorded, greatly propelling economic recovery.

Total arrivals for the 2021/22 financial year were 59,657 – a welcome rise compared to 7,540 in 2020/21. The rise in visitor numbers is due to the reopening of border and quarantine free travel between New Zealand and the Cook Islands for July and August 2021 and again in January 2022.

Improved access from Sydney and Hawaii is planned to be available from the last quarter of 2022/23 - opening up travel for visitors from other parts of the world. With travel restrictions around the world eased, visitor arrivals for the financial year are estimated at approximately 128,000.

In 2023/24 visitor arrivals are expected to grow by 25.6 per cent to just over 160,000, moving closer to pre-pandemic arrival numbers. This is a point forecast situated in a wide possible range, given the anticipated slow-down and possible recession in New Zealand in 2023.

With many factors remaining unknown there is significant uncertainty around these forecasts, with the key downside risk being the economic constraints of key markets such as New Zealand and the availability of airline capacity.

Figure 6-14 Total visitor arrivals, 12-month total, 2013/14 to 2025/26

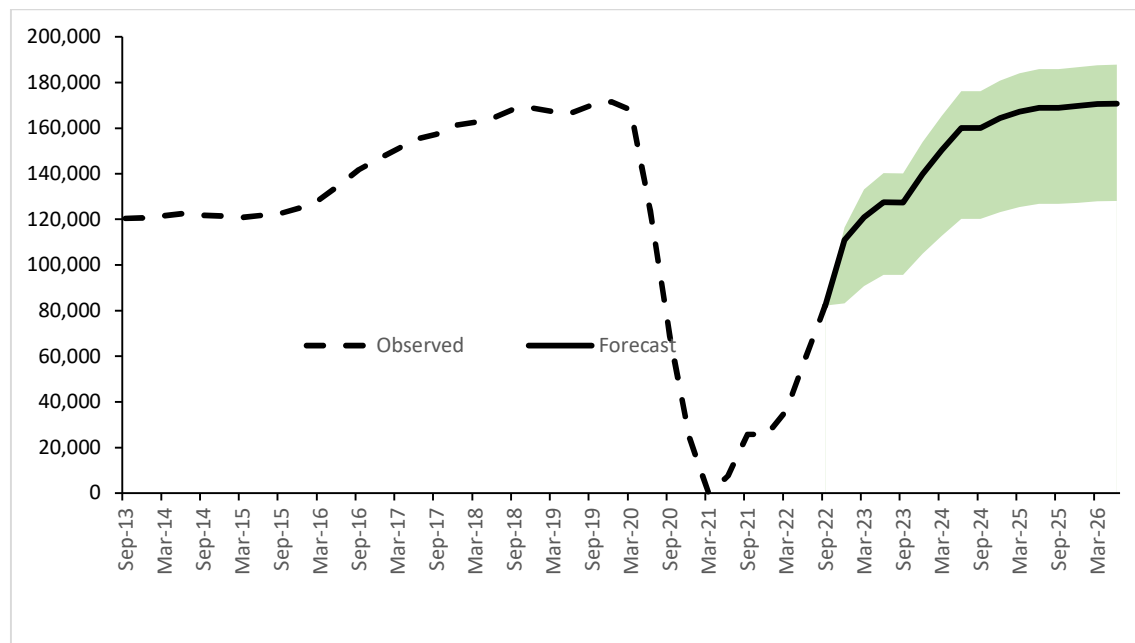


Table 6-3 Estimated total arrivals, quarterly, 2021/22 to 2025/26

Quarters	2021/22	2022/23f	2023/24f	2024/25f	2025/26f
September	18,261	40,867	43,928	44,200	44,200
December	0	29,592	39,730	42,727	43,473
March	10,394	20,112	30,042	32,813	33,609
June	31,002	37,412	46,963	48,539	48,883
Annual total	59,657	127,982	160,664	168,279	170,165

During border closures there were opportunities for ‘staycations’ and domestic travel being offered to residents at discounted prices. Now that borders have opened and visitor arrival numbers are climbing, these prices have largely returned to pre-pandemic levels, with low season offers.

6.3.4.2 Major markets

Due to limited access from other markets (both directly and via Auckland as a gateway), visitors have been predominantly from New Zealand with 97.1 per cent of total arrivals in the 2021/22 fiscal period, followed by Australia with 2.0 per cent. Combined, all other markets make up just over 500 visitors, or less than 1 per cent.

In 2022/23 the share taken up by New Zealand will decrease to 87.6 per cent, with the share slowly declining over the forward years to around 67 per cent by 2025/26 – similar to pre-pandemic levels. This share is followed by Australia, which will increase to 7.7 per cent in 2022/23, then 14.0 per cent in 2023/24 after the commencement of two direct flights per week in June 2023. Other markets are expected to follow a similar path, with the newly announced flight from Honolulu being an important

conduit for the USA and Canada markets, and the link via Tahiti being especially important for the European market (see Table 6-4.)

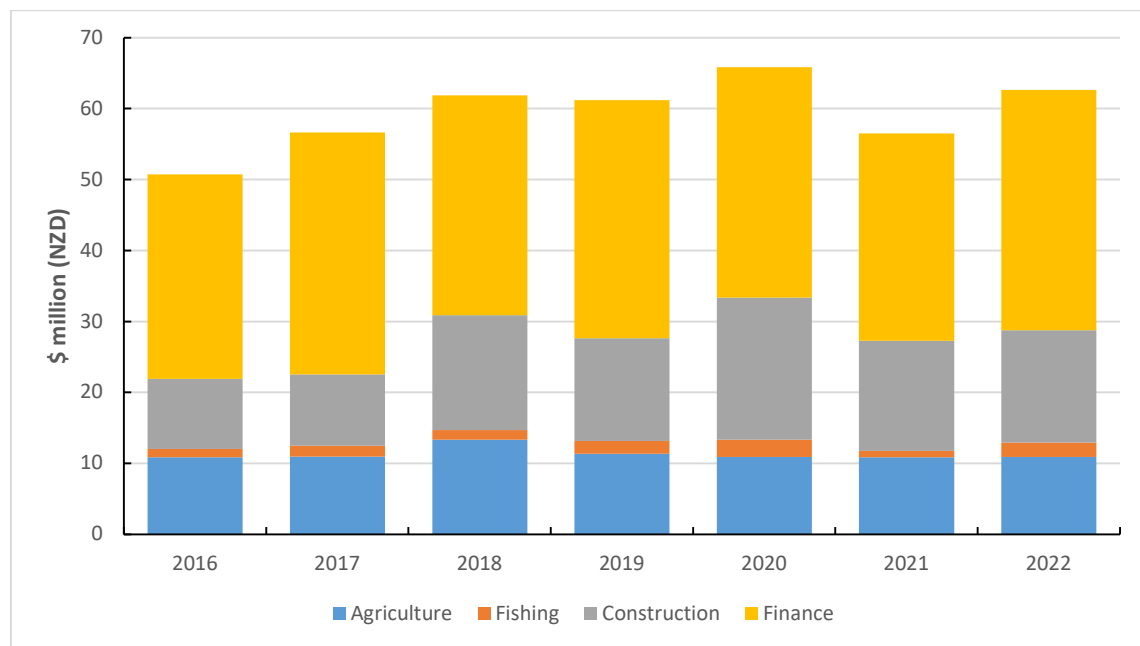
Table 6-4 Forecast total tourism numbers, by major market, 2021/22 to 2025/26

Markets	2021/22	2022/23f	2023/24f	2024/25f	2025/26f
New Zealand	57,933	111,856	120,995	115,212	114,693
Australia	1,185	10,172	22,326	30,406	31,050
USA & Canada	86	2,062	7,075	8,851	9,470
Europe	193	2,645	7,772	10,473	11,347
Other	260	1,248	2,496	3,338	3,605
Total	59,657	127,982	160,664	168,279	170,165

6.3.5 Other key industries

While Tourism is by far the largest sector in the Cook Islands, there are a number of other sectors of importance – such as the Finance, Agriculture, Fishing and Construction sectors.

Figure 6-15 Contribution to Nominal GDP – year to March (\$ million)



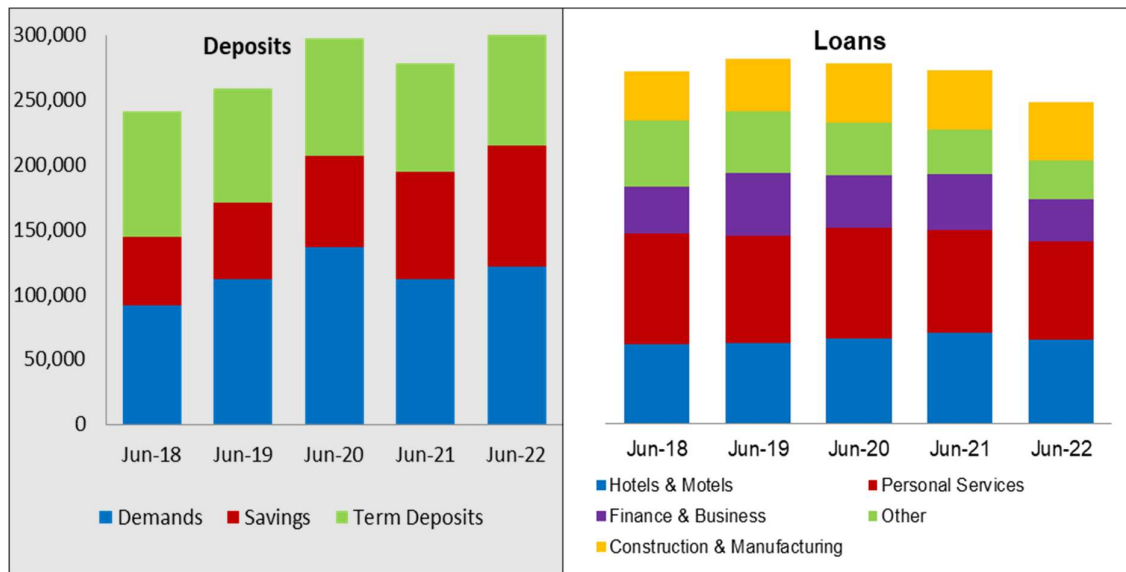
6.3.5.1 Banking

Total deposits in Cook Islands banks in June 2022 (latest available data) were 14.6 per cent higher than a year earlier, increasing from \$277.8 million to \$318.3 million. This is the highest level of deposits since the onset of the pandemic, and likely shows a return to a more positive business environment – as there has been strong increases in all of demand deposits (\$9.5 million or 8.4 per cent), savings accounts (\$10.8 million or 13.2 per cent) and term deposits (\$20.2 million or 24.1 per cent) (see Figure 6-16).

Total lending by Cook Islands banks as at June 2022 had declined by 9.2 per cent (or \$25.2 million) from a year earlier – mostly in the September 2021 and June 2022 quarters. To some degree this is expected considering the deep recession experience in the Cook Islands which created considerable uncertainty and the Cook Islands banks have taken conservative stances in recent years, coupled with lenders being able to make repayments in the June 2022 quarter, causing existing debt to be paid down. This decline is especially seen in the Finance & Business sector, where outstanding debt moved

from \$43.3 million to \$33.2 million in the year – with all of this decline coming in the September 2021 quarter. Key in this analysis, government debt held outside of the Cook Islands is not included here as it is held by foreign entities – such as the Asian Development Bank.

Figure 6-16 Total value of bank deposits and loans, June 2018 to June 2022 (\$'000)



6.3.5.2 Financial services industry

The Cook Islands’ financial services industry employs approximately 275 staff, accounting for approximately 4.4 per cent of total employment in the Cook Islands.²⁰

There are three commercial banks: ANZ Banking Group Limited (ANZ) and Bank of South Pacific (BSP) Limited operate as foreign-owned branches, while the Bank of the Cook Islands (BCI) Limited is owned by Government. BCI operates on all islands within the Cook Islands and channels government subsidies, child benefit and pension payments to beneficiaries, and is responsible for the payment of government salaries. As a result, the number of Cook Islanders with access to a bank account is very high. An additional domestic bank, Capital Security Bank (CSB), is an onshore private bank that specializes in providing banking and wealth management services to international clients.

The licensed trustee companies are responsible for the administration of approximately 3,200 entities and trusts on the Cook Islands international registers. The registration and renewal fees provided Government approximately \$1.35 million in 2021/22. The growth of these numbers depends on the impact of international tax and regulatory requirements and the licensed trustee companies’ ability to operate efficiently and diversify. The enactment of the International Relationship Property Trusts Act 2021 has provided the FSDA the opportunity to market and promote a new trust product, the International Relationship Property Trust (IRPT) to international markets. The 2022/23 fiscal period will see the FSDA focus its marketing resources on the IRPT to generate increased Government revenues and drive employment within the industry over the medium to long term.

As with all industries the financial services industry has been adversely affected by COVID-19, given the restrictions on international travel and the ability to visit existing clients and potential new clients. However, due to the industry’s ability to embrace technology and given that a very large proportion

²⁰ Based on a survey conducted as at 30 June 2022 by the Financial Services Development Authority. The employment rate is estimated using the number of active Cook Islands National Superannuation Fund members as a proxy for total employees in the Cook Islands. As at 30 June 2022 there were 6,204 active members.

of business is carried out on line, the financial services industry, and in particular the licensed trustee companies, has been robust and remained resilient in the face of very difficult market conditions.

The Cook Islands continues to meet its international obligations concerning transparency on tax matters and in regards to its AML regime. The Cook Islands is on the European Union’s white list of cooperative jurisdictions on tax matters and was given an outstanding report by the Asia Pacific Group (a regional body of the FATF) following the most recent mutual evaluation carried out in 2017.

The Cook Islands Statistics Office identifies the financial services industry as the finance and insurance sector. The sector’s contribution to GDP, shown in Figure 6-15, has ranged between \$29 million and \$34 million over the past five years, with a peak of \$34.1 million in the year to March 2017, and a year to March 2022 contribution of \$33.9 million.

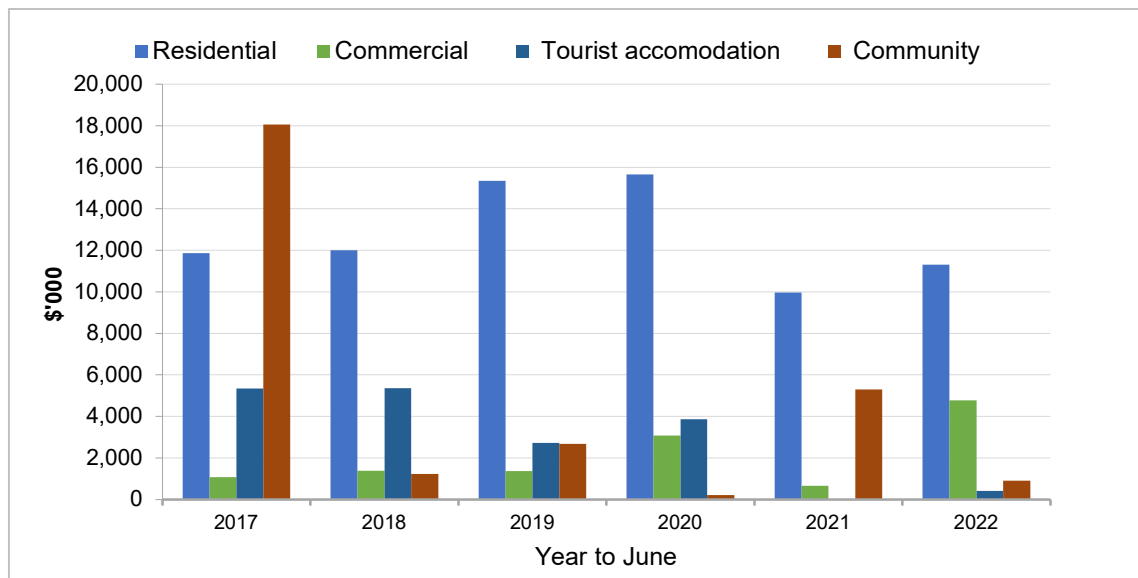
A 2018 IMF-PFTAC report estimated that between 2010 and 2017 the total direct and indirect contribution to GDP of the international financial services industry has fluctuated between 3.8 per cent and 4.8 per cent. The direct contribution has increased from \$12.5 million in 2010 to \$14.9 million in 2017, while the indirect contribution has remained flat, averaging around \$3.5 million per year. The indirect contribution has remained unchanged because purchases of production inputs from other businesses in the Cook Islands have been falling.

6.3.5.3 Housing and construction

The total value of Cook Islands building approvals in the year to June 2022 grew by 9.1 per cent to \$17.4 million, from \$15.9 million reported in the previous year. The largest part of the increase is in commercial buildings by \$4.1 million (a huge 632 per cent of the year to June 2021 total, as businesses began to make plans for the future again in the aftermath of the pandemic). Residential building approvals were also \$1.3 million more than the previous year, showing some recovery from the lows of the year to June 2021. In contrast, Community building approvals declined from \$5.3 million to \$0.9 million – though this series is much ‘lumpier’ than the other series and dominated by small numbers of large projects (Figure 6-17).

The past two years to March have seen the Construction sector come off slightly from the highs of pre-COVID, declining from \$20.0 million in the year to March 2020 to \$15.5 million and \$15.8 million in the two years since. With building approvals increasing, this suggests an increase in this contribution to GDP may be on the horizon.

Figure 6-17 Building approvals, 2017 to 2022 (\$'000)



6.3.5.4 Marine resources

A key source of government revenue, as well as an important sector for economic activity in Rarotonga and the Outer Islands, is the marine resources sector – that is fishing and pearl farming. While this sector remains important, the sector has accounted for less than half of one per cent of GDP since 2012/13, with the largest contribution being \$2.3 million in 2019/20 (see Figure 6-15). However, the revenue from licensing and permits far exceeds this amount.

The main benefit to the Cook Islands Government from fishing activities is revenue from treaty arrangements, purse seine fishing bilateral arrangements, license fees and the sale of catch quotas. The revenue collected in 2020/21 was \$9.9 million, with 2021/22 being affected by climatic conditions (La Nina), pushing revenue lower. These conditions are predicted to continue through to February 2023.

There are a number of different types of licence and permits which generate revenue, with the longline Quota Management System (QMS) and purse seine fishing days responsible for most of the revenue. The longline QMS uses a total allowable catch approach, and purse seine sells a number of fishing days, implemented in conjunction with the Western Central Pacific Fisheries Commission (WCPFC).

Key purse seine agreements have been made with the United States (as part of a regional approach) and with the European Union (EU). The standard price per day is US\$9,500, but different prices have been negotiated for the US as part of the treaty arrangements (US\$9,553 per day) and for the EU access is granted under a broader package of €151,000, with the possibility to purchase extra days at €8,000 per day. The return in NZD fluctuates with exchange rates.

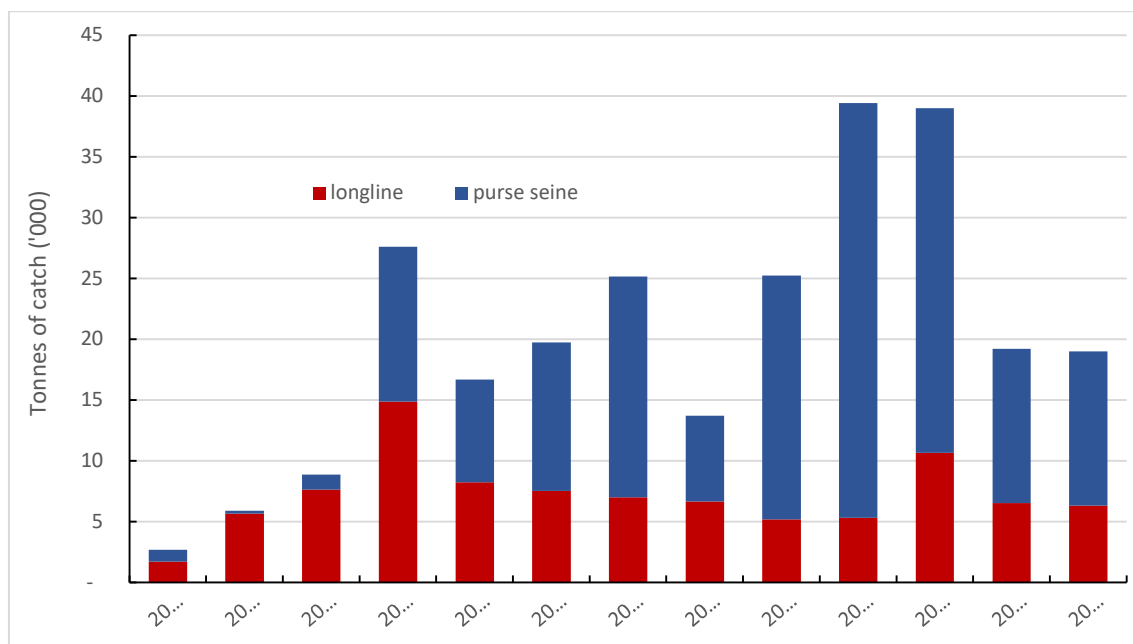
In 2022, long-line catch rates seemed to have significantly increased from the previous two years so revenue predictions for 2022/23 are forecast to increase from 2021/22 but remain conservative for periods beyond 2023. Projected fisheries revenue for 2022/23 is \$9.3 million.

The sources of revenues include:

- \$ 3.0 million from the longline licensing, development fees and QMS
- \$ 3.1 million from the US Treaty
- \$ 1.5 million from the purse seine vessel days
- \$ 1.3 million from the EU Sustainable Fisheries Partnership Agreement (SFPA) fishing authorisations
- \$ 0.4 million from other fisheries and fines

The development of the purse seine fishery has contributed significantly to the growth of this sector, though it is largely dependent on annual fishing patterns influenced by climatic conditions such as El Nino and La Nina, and experiences year on year fluctuations in west-east migrations. Fisheries management arrangements and differences in pricing for purse seine vessel days also influence where and when fleets choose to fish.

Figure 6-18 Fishery catch in the Cook Islands EEZ²¹



Source: Ministry of Marine Resources

Table 6-5 Fishery catches in the Cook Islands EEZ by species (tonnes)

	2020			2021		
	Longline	Purse Seine	Local	Longline	Purse Seine	Local
Albacore	3529	0	0	2336	0	1
Bigeye	398	325	0	410	168	1
Yellowfin	146	972	70	1269	304	47
Skipjack	1477	11374	5	56	2100	4
Other	767	12	34	412	3	35
Total	6317	12683	109	4483	2575	88

In 2022, the Ministry of Marine Resources (MMR) managed 83 licensed vessels made up of 65 longline, five purse seine, 10 bunker vessels, two trawlers and one pot/trap vessel. In addition, there were 236 local artisanal and game charter fishing boats reporting catches to MMR.

One domestic commercial fishing company with the Cook Islands flagged longline vessel operates in the Southern Group waters and offload their catch at the Avatiu port predominantly for the domestic market. 75t of fish were unloaded on Rarotonga from the domestic vessels in 2021, compared to 126t in 2020. There were no exports over this period and there has been no landed catch by foreign vessels in Rarotonga since 2017.

With borders opening and tourism activities resuming, local fish prices have risen significantly, as commercial and artisanal fishers are unable to meet local market demands for fish products, which is higher than supply. Tuna is also being imported from French Polynesia, selling at higher prices in the Cook Islands than it is in French Polynesia. Local prices increased to \$30-\$40 per kilogram in July 2022. This in turn increases the ability of fishers in the Outer Islands to sell fish to the Rarotonga market particularly in the high season.

²¹ Catch and effort estimates for 2021 not yet finalised.

6.3.5.5 Agricultural activity and exports

The Agricultural sector accounted for about 2.2 per cent of nominal GDP in the year to March 2022, remaining at \$10.9 million, the same level from a year earlier. Agricultural production in the Cook Islands is targeted predominately toward domestic consumption, with the tourist market providing a form of 'localised export' for products, without facing the constraints of traditional export markets – such as freight costs.

While the activity within the domestic agricultural sector has seen an increase in some areas (such as Aitutaki, Mangaia and Mauke who are consistently supplying vegetables and herbs to Prime Foods and Wigmore's Superstore on Rarotonga), overall, there has been a decrease in production from commercial and subsistent growers on Rarotonga and the Pa Enea for 2021 to 2022. This is a result of COVID-19 where our borders were closed and our tourism market diminished drastically. Farmers scaled back their planting programmes in an effort to ensure all produce was sold and to reduce waste.

The Ministry of Agriculture continues to work with all farmers in the Cook Islands to effectively manage their planting programmes. Resourcing these farmers with farming inputs and technical advice has ensured that farming and production of locally grown vegetables and root crops for consumption and sale, now that our tourism market has returned, is maintained.

Table 6-6 Total value of produce in 2021 (\$'000)

	Fruits	Root-crops	Vegetables	Herbs	Total
Rarotonga	505	223	86	2	817
<i>Aitutaki</i>	8	24	1	0	32
<i>Atiu</i>	1	1	0	0	2
<i>Mangaia</i>	4	2	2	0	8
<i>Mauke</i>	39	14	5	0	58
<i>Mitiaro</i>	2	1	0	0	3
Pa Enea Total	54	42	8	0	103
Total	559	265	94	2	920

Source: Ministry of Agriculture

While noni remains the only commodity to be exported overseas in 2021, shipments of frozen taro were exported by air and sea in 2022, to NZ from Aitutaki and Rarotonga, with an average weight of 2,000 kilograms per shipment. Small quantities of vanilla have also been exported to the US. Maintaining the supply of taro for export needs to be monitored to ensure sustainability.

The Ministry of Agriculture is undertaking a range of work to assist in productivity in the sector – including better understanding of soil management, changing climatic conditions and catering to the domestic market demands.

7 Crown Debt and Net Worth

The government released its Medium-Term Debt Strategy (MTDS) 2022-2026 in June 2022. The MTDS sets debt management targets that will contribute to maintaining prudent levels of debt and risks consistent with the Medium-Term Fiscal Framework (MTFF).

The key focus areas for the MTDS are:

1. Maintaining Crown debt as a share of GDP below the 65 per cent hard cap established by the Net Debt Rule.
2. New borrowing is limited to government priorities identified through the National Budget Process.
3. Manage and mitigate costs and risks by monitoring performance against these key indicators:

Table 7-1 Key Targets 2023 - 2026

	Indicators	Current level (2022)	Target – overall debt	Target – new debt
Interest rate risk	1. Implied interest rate	3.6%	<4.5%	<4.5%
	2. % of total debt in variable interest rates	74.9%	<70%	<65%
Refinancing risk	3. Limit total public debt maturing in 1 year	3.5%	<6%	<5%
	4. Total Average Time to Maturity	7.3 years	>7 years	>15years
Exchange rate risk	5. foreign debt as a % of total debt	42.0%	<30%	<10%

4. Complete the application process for country reclassification review with the ADB by 2022/23.
5. Research white paper on the feasibility of setting up the domestic debt market by issuing government securities in New Zealand to utilise the larger market for NZD securities.

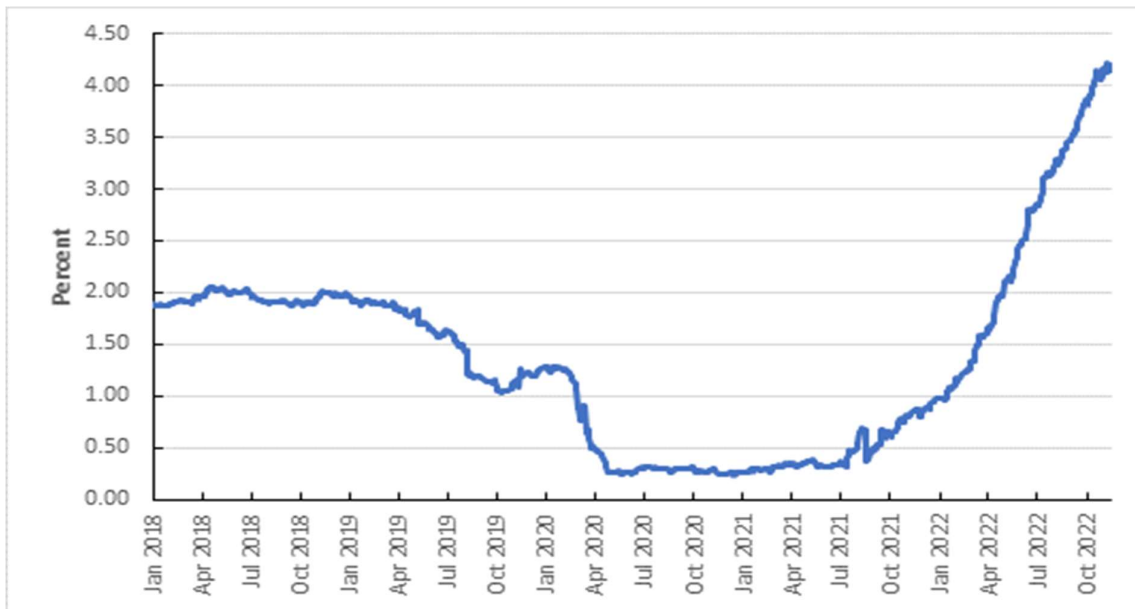
These indicators are monitored annually. Since the publication of the MTDS, the government has discussed debt management initiatives with some of its lending partners. Some of the initiatives agreed upon will be implemented by the start of the 2023/24 fiscal period.

The main debt management variable that has changed since the 2022/23 Budget was the interest rates on debt (in particular the New Zealand 6-month Bank Bill Rate), as well as the exchange rates used.

Table 7-2 Currency movement since Appropriation 2022/23 (million)

Currency	2022/23 Budget	2022/23 HYEFU	Movement	% Change
EUR	0.6231	0.6046	-0.0185	-3%
USD	0.7060	0.6070	-0.0990	-14%
RMB	4.5452	4.3352	-0.2100	-5%
SDR	0.5065	0.4683	-0.0382	-8%

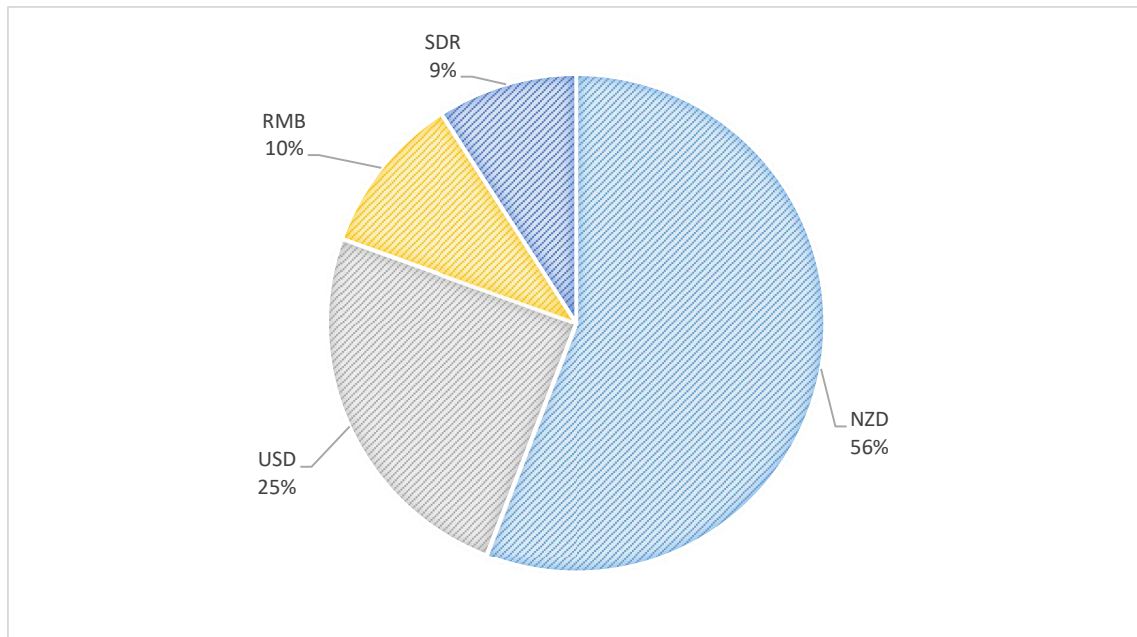
Figure 7-1 New Zealand 6-month Bank Bill Rate



Source: Reserve Bank of New Zealand

Approximately 56 per cent of the of the government’s debt portfolio are in NZD and not impacted by fluctuations in the exchange rates. However, 25 per cent of the debt portfolio is held in USD, plus 9 per cent in SDR, of which the USD is a component. Table 7-2 demonstrates the NZD depreciated against the USD by 14 per cent. This USD depreciation is the primary driver of the debt increasing in value, which accounted for \$8 million in unrealised foreign exchange loss, with depreciation against other currencies accounting for the remainder of the unrealised loss.

Figure 7-2 Public Debt Portfolio by Currency – June 2023



Total gross debt reported at the time of budget was \$220.8 million, this has been revalued upward to \$231.5 million (up \$10.7 million) in the Half Year Economic and Fiscal Update (HYEFU), reflecting mainly the impact of depreciation of the NZD as demonstrated below.

Table 7-3 Debt movement since the Appropriation 2022/23 (million)

Debt Financial forecast 2022/23	Direct Debt	SOE Debt	Gross Debt
Loans committed and drawn	176.54	41.95	218.49
SOE direct commercial debt	0.00	2.33	2.33
Total gross debt - original forecast	176.54	44.28	220.82
<i>Adjustments made for half year update</i>			
FOREX Exchange movement	6.56	4.14	10.70
Total Adjustments	6.56	4.14	10.70
Debt financial forecast - Half Year Update			
Loans committed and drawn	183.09	46.10	229.19
SOE direct commercial debt	0.00	2.33	2.33
Total gross debt - Half Year Update	183.09	48.42	231.52

7.1 Debt Headroom

Table 7-4 Financing Requirements 2023-2026 ('000)

Financing Requirements	2021/22 Actual	2022/23 Budget	2022/23 HYEFU	2023/24	2024/25	2025/26
Net Operating Balance	(\$24,523)	(\$19,267)	(\$22,644)	(\$815)	\$13,140	\$25,511
Net Non-Op. Balance (excl debt)	(\$31,206)	(\$40,643)	(\$42,101)	(\$29,332)	(\$28,660)	(\$30,333)
Depreciation	\$13,441	\$13,767	\$13,767	\$13,783	\$13,783	\$13,783
Payments made from LRF	\$0	\$728	\$7,000	\$0	\$0	\$0
Financing Req. (excl debt)	(\$42,288)	(\$45,415)	(\$43,978)	(\$16,364)	(\$1,737)	\$8,960
<i>add: General Cash Reserves (start)</i>	<i>\$0</i>	<i>\$45,415</i>	<i>\$43,978</i>	<i>\$16,364</i>	<i>\$1,738</i>	<i>\$0</i>
<i>add: Debt Financing</i>	<i>\$55,540</i>	<i>\$0</i>	<i>\$0</i>	<i>\$0</i>	<i>\$0</i>	<i>\$0</i>
Financing Gap	\$0	\$0	\$0	\$0	\$0	\$0
Current debt level	\$231,018	\$220,818	\$231,517	\$214,201	\$196,689	\$180,637
Estimated Debt Inc Financing	\$231,018	\$220,818	\$231,517	\$214,201	\$196,689	\$180,637
GDP forecast	\$480,000	\$567,029	\$546,900	\$602,600	\$624,600	\$657,900
Gross Debt to GDP	48%	39%	42%	36%	31%	27%
LRF Balance	\$11,011	\$12,669	\$4,232	\$4,316	\$4,403	\$4,491
Estimated net debt level	\$220,007	\$208,149	\$227,286	\$209,885	\$192,287	\$176,146
Net Debt to GDP	46%	37%	42%	35%	31%	27%

The HYEFU numbers illustrated in the above table estimated an increase in Net Debt as a share of GDP from 37 per cent to 42 per cent. This is mainly due to the increase in gross debt from the depreciation of the NZD relative to the USD but the increased share was also impacted by a lower GDP and Loan Repayment Fund (LRF) balance.

The LRF balance at the end of 2022/23 is estimated to reduce from a previously estimated \$12.7 million to \$4.2 million by the end of the financial year due mainly to the increased debt service requirements from the impact of lower NZD value but also a reduction in the amount expected to be transferred into the LRF from general cash reserves. Section 7(1)(b) of the LRF Act 2014 requires the

Financial Secretary to “ensure that the balance of the fund is no less than the projected amount of government debt due to be paid in that financial year (the debt service requirements).”

The \$4.2 million balance of the LRF estimated to the end of June 2023 is the residual balance after paying the annual debt service requirements, therefore complying with the LRF Act requirements.

This overview does not consider any new debt but government is committed to two contingent debt instruments with a total value of \$85.8 million, which can be accessed when agreed triggers are met:

- Disaster contingency loan of \$30.3 million that will only be drawn in the event of disasters triggered by natural hazards or health emergencies.
- Precautionary financing loan (ADB) of \$55.5 million to support government’s cashflow when pre-established conditions are met.

Under these settings the hard cap of 65 per cent of Net Debt to GDP is not breached – and the soft cap of 55 per cent Net Debt to GDP only is in the year of drawdown. As illustrated on Figure 7-3 below, in the event government is required to take on the two contingent loans, it will still be within the 65% net debt to GDP rule. This should be noted as being close to a ‘worst case scenario’ as it involves a cash crunch, triggering the PFO loan as well as a natural disaster occurring.

Figure 7-3 Net debt to GDP (percentage of nominal GDP)

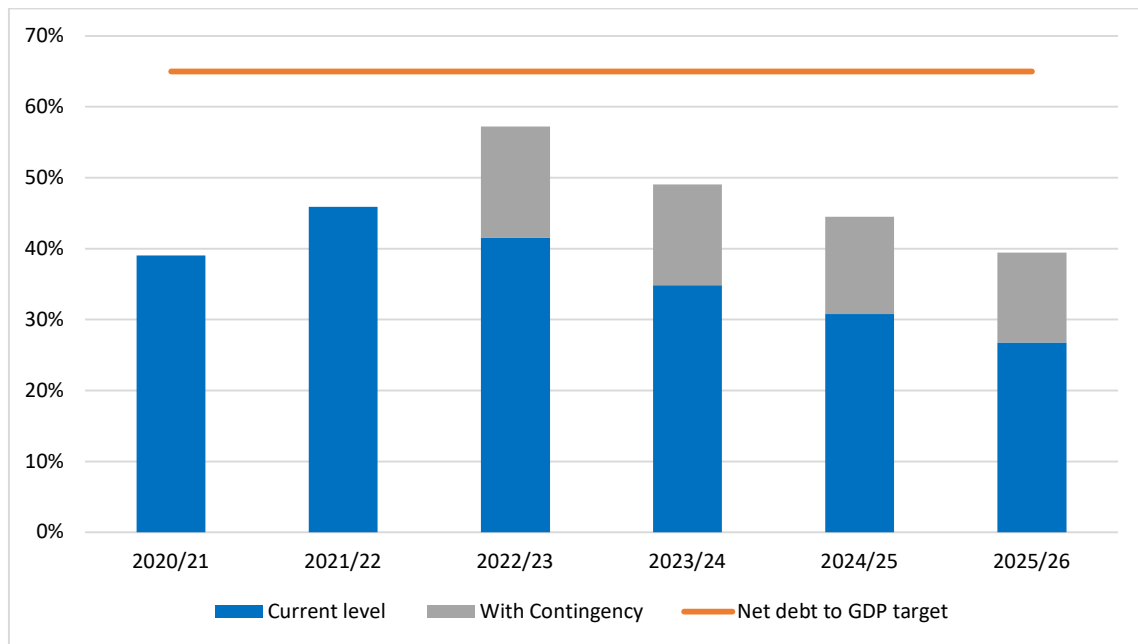
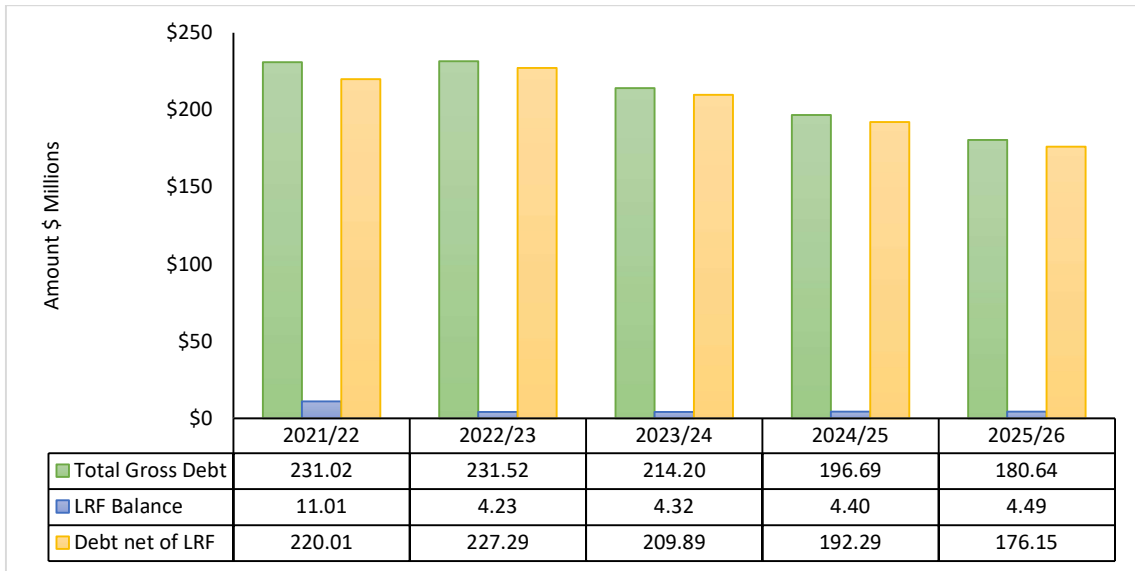
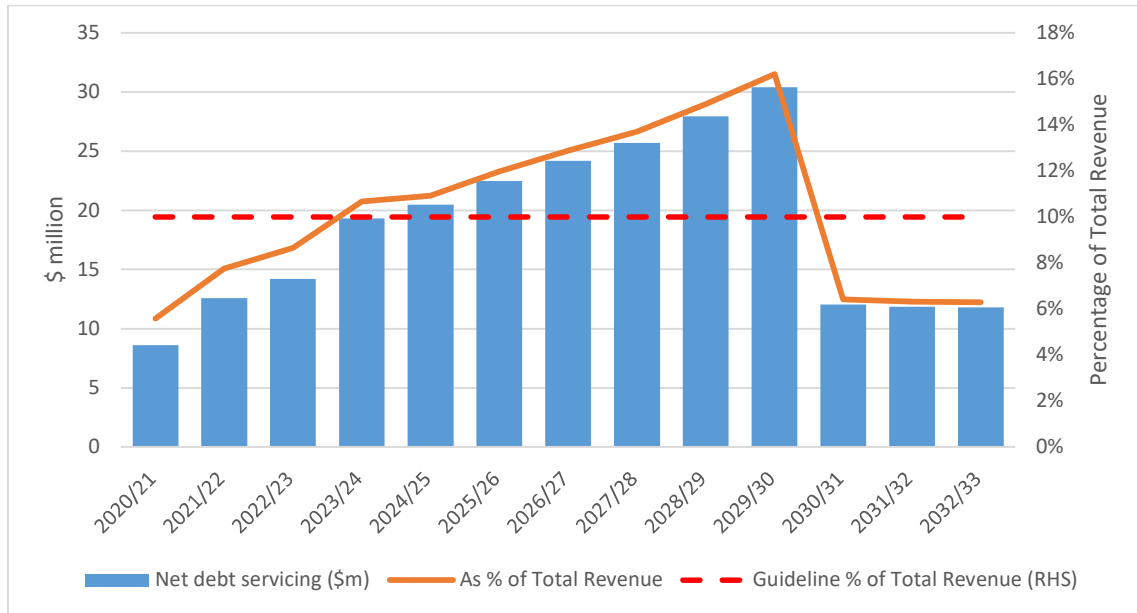


Figure 7-4 Crown debt net of Loan Repayment Fund (\$ million)



Net debt is estimated at \$227.3 million (42 per cent of GDP) and gradually reduces in the outer years on the assumption that principal is repaid, and Crown does not take on additional loans.

Figure 7-5 10-year Net Debt Servicing Profile (\$ million)



Although net debt to GDP is within the fiscal limit of 65 per cent, net debt servicing to total revenue is estimated to surpass 10 per cent in 2023/24. This has potential to become problematic because it can impact government’s cashflow if overall spending is not reduced. Crown’s debt servicing (net SOE repayments of \$3.9 million) is estimated to peak at 16 per cent of total revenue with an annual repayment of \$30.4 million in 2029/30.

The debt servicing profile is largely influenced by the post COVID-19 loans which were only made available at less concessional terms with shorter average repayment terms of 10 years.

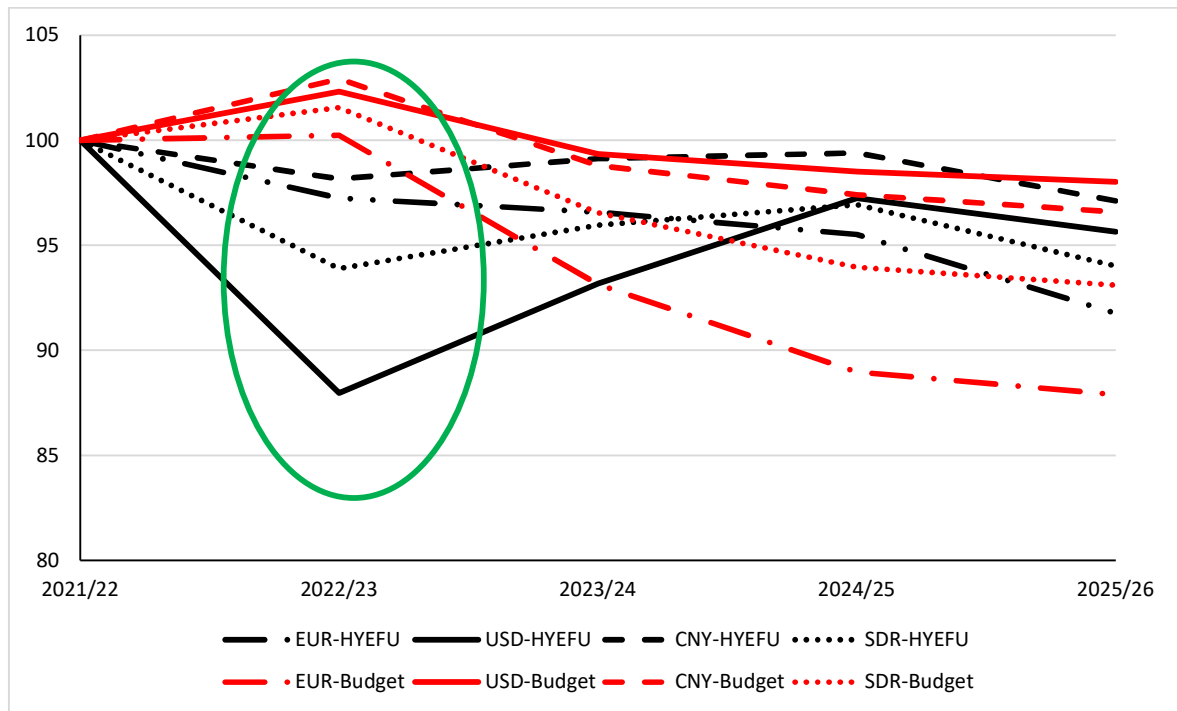
7.2 Exchange Rate Analysis

Currency risk arises when debt is held in foreign currency. Adverse movements in the exchange rate against the NZD lead to increase costs. To minimize foreign currency risk, the government continues to prefer new borrowings in the local currency and restrict borrowings in currencies that are not favourable to the local currency.

Table 7-5 Exchange Rate Forecast – 2021/22 to 2025/26

Currency	2021/22	2022/23	2023/24	2024/25	2025/26
NZD/EUR	0.6216	0.6046	0.6004	0.5938	0.5704
NZD/USD	0.6900	0.6070	0.6430	0.6710	0.6600
NZD/CNY	4.4160	4.3352	4.3775	4.3897	4.2887
NZD/SDR	0.4987	0.4683	0.4786	0.4834	0.4689

Figure 7-6 Assumed changes in major exchange rates (indices – 2021/22 = 100)



The graph above demonstrates how volatile and challenging it is to forecast movement in exchange rate. At the time of the budget, it was reported that for the financial year 2023 the value of the NZD against its major trading partners will appreciate (trend in red), however the forecast for this HYEFU (trend in black) confirms the opposite.

7.2.1 Debt Sensitivity Analysis

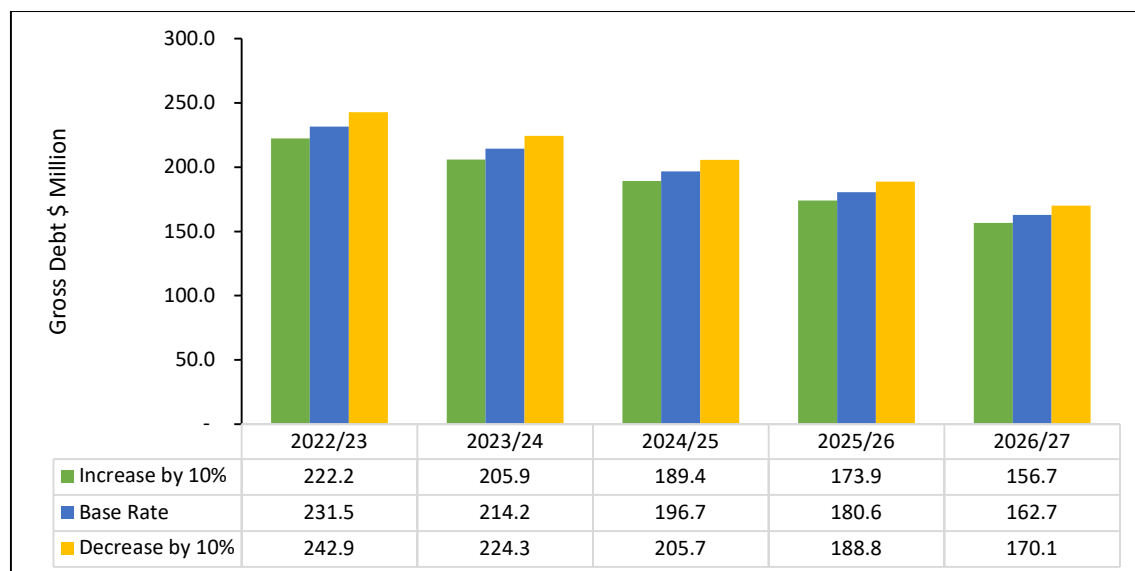
Table 7-6 Base exchange rates assumptions used in 2022/23 Budget with +/- 10%

Foreign Exchange Currency	-10%	Budget base rate	+10%
EUR	0.5441	0.6046	0.6650
USD	0.5463	0.6070	0.6677
RMB	3.9017	4.3352	4.7687
SDR	0.4215	0.4683	0.5151

Movements in the value of the NZD against the currencies in which loans are held remains a risk. The sensitivity analysis demonstrates the impact of a 10 per cent appreciation or depreciation by the NZD to determine the impact on the gross borrowings and the debt servicing cost.

The HYEPU estimated a \$10.7 million unrealised foreign exchange loss primarily as a result of reported depreciation in the NZD value against the USD of 14 per cent.

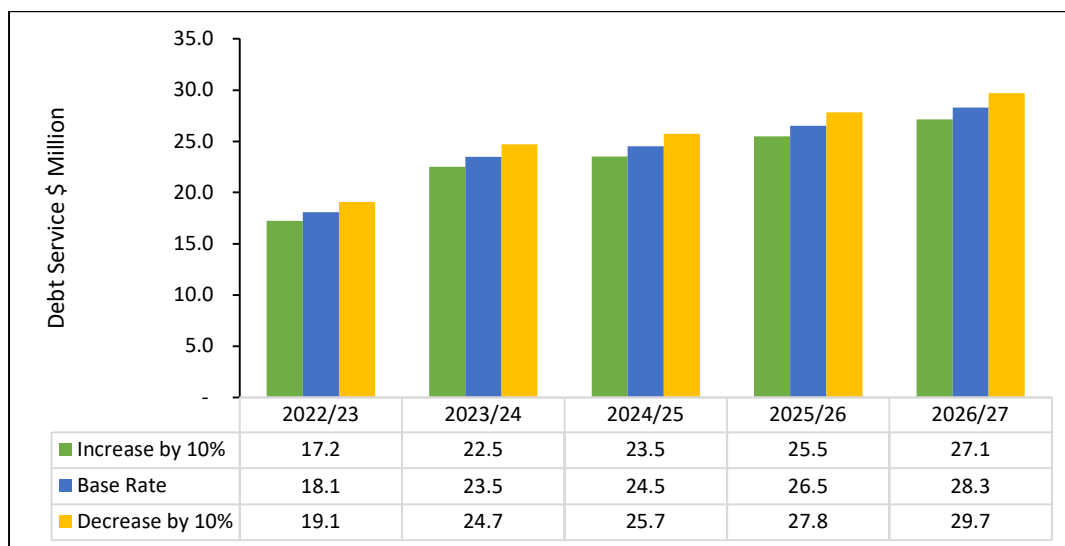
Figure 7-7 Sensitivity of Crown Gross Debt to NZD movements



If the relevant NZD exchange rates were to further depreciate by 10 per cent against major trading currencies, Crown debt estimated to the end of June 2023 would increase by an estimated \$11.4 million compared to a \$9.3 million if the NZD were to appreciate by 10%. This demonstrates the Crown's gross debt level is more adversely sensitive to depreciation of the NZD.

Likewise, a 10 per cent reduction in the foreign currency value of the NZD would increase debt servicing costs to the LRF by \$1 million compared to \$0.8 million in the 2022/23 fiscal period if the NZD were to appreciate by 10 per cent.

Figure 7-8 Sensitivity of Crown Debt Servicing Costs to NZD movements



7.3 Crown Debt by Lenders

Figure 7-9 Overall Debt by Lenders – June 2023

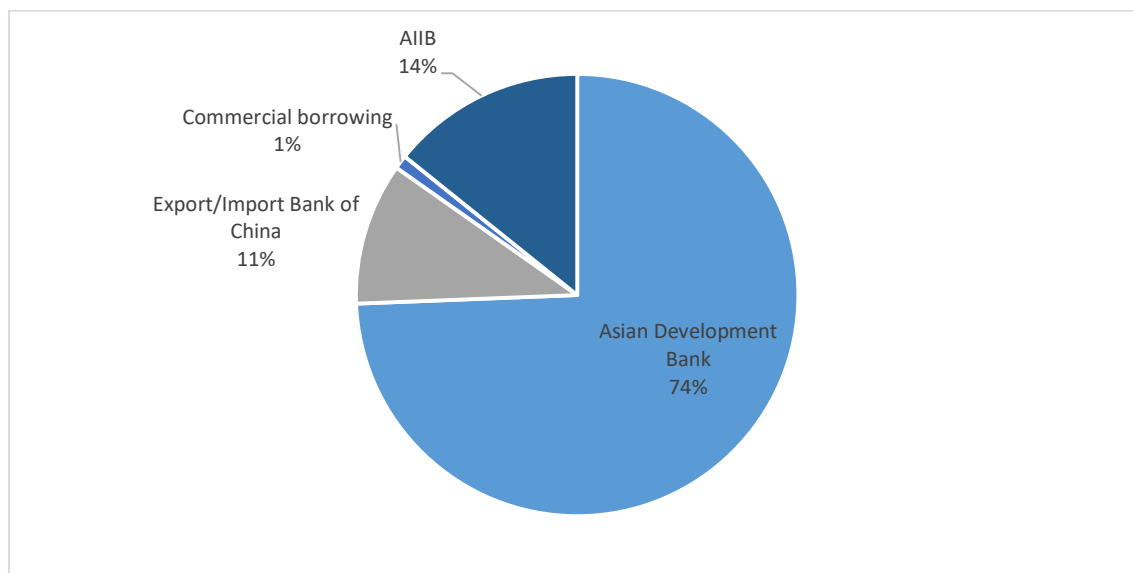


Table 7-7 Overall Debt by Lenders – June 2023

Debt Outstanding	(\$ million)
ADB	172.2
AIB	32.9
Exim Bank China	24.1
Commercial Bank	2.3
Total	231.5

The ADB have provided the largest proportion of lending to the Cook Islands, making up 74 per cent of the current debt portfolio. The terms of borrowing have been concessional to date, however increasing limitations in selection of terms, for example interest rate type and tenure, increases the

risk within the debt portfolio. For any new debt, this may be mitigated by the ADB reclassifying the Cook Islands to a Group B country in the wake of COVID-19.

7.4 Gross Debt by Individual Loan

Table 7-8 Status of Government loans to 30 June 2023

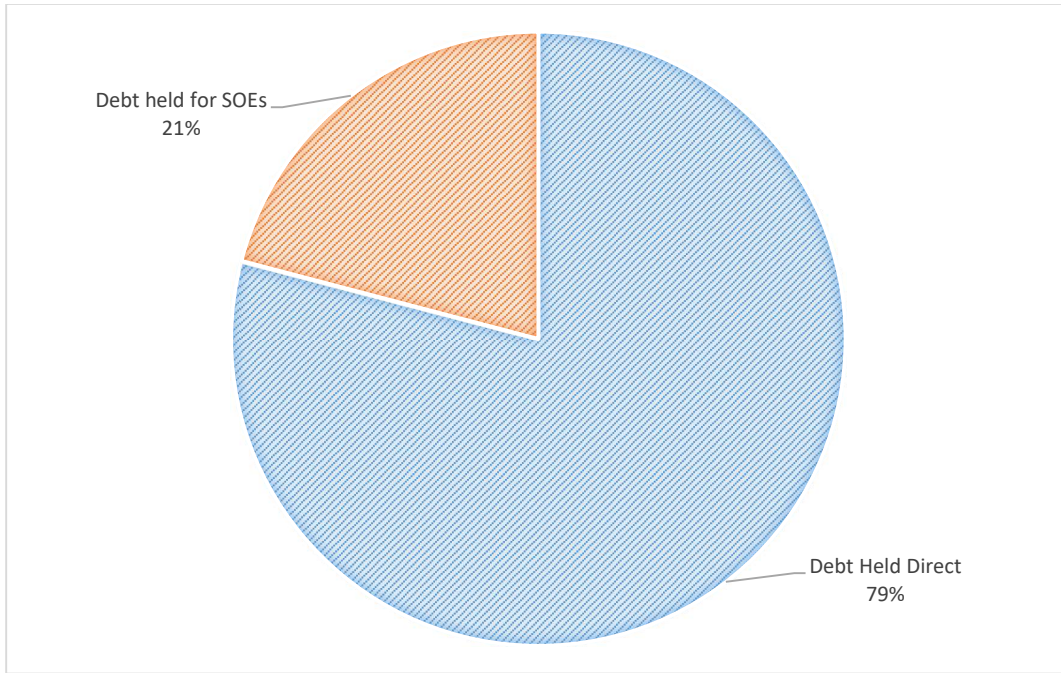
Loans committed and drawn	Date loan taken	Original loan amount (000's)	Expected date of Repayment	Current Balance (\$NZD 000's)
ADB 849 (SF) 2nd Multi-Project	December, 1987	SDR 2,150	August, 2027	770
ADB 1031 (SF) Outer Islands Telecom Project	October, 1990	SDR 3,578	August, 2030	2,449
ADB 1155 (SF) 2nd CIDB Project	March, 1992	SDR 1,085	December, 2031	658
ADB 1171 (SF) Emerg. Telecom Rehab Project	August, 1992	SDR 349	June, 2032	231
ADB 1309 (SF) Pearl Industry Dev. Project	December, 1994	SDR 272	August, 2034	290
ADB 1317 (SF) Educ'n Dev Project	February, 1995	SDR 1,852	August, 2034	1,769
ADB 1380 (SF) 3rd CIDB Project	January, 1996	SDR 1,977	September, 2035	1,553
ADB 1466 (SF) Economic Restructure Program	September, 1996	SDR 3,430	September, 2036	3,618
ADB 1588 (SF) Cyclone Emergency Rehab Project	January, 1997	SDR 583	January, 2038	649
ADB 1832 (SF) Waste Mgt Project	December, 2001	SDR 1,695	June, 2033	1,408
ADB 2174 (SF) Cyclone Emergency Assist Project	June, 2005	SDR 1,895	June, 2045	3,183
China - Multi-Functional Indoor Sports Stadium	August, 2008	RMB 74,100	August, 2028	6,006
ADB 2472 (OCR) Avatiu Port Development Project	September, 2009	NZD 10,309	November, 2033	7,515
ADB 2473 (SF) Avatiu Ports Development project	September, 2009	SDR 4,524	November, 2040	4,455
ADB 2565 OCR Economic Recovery Support Program 1	January, 2010	NZD 11,053	October, 2024	1,507
ADB 2739 (OCR) Amendment Avatiu Port project	December, 2011	NZD 5,290	November, 2035	4,372
China - Rarotonga Water Ring Main Upgrade	December, 2012	RMB 118,000	December, 2032	18,078
ADB 2946 OCR Economic Recovery Support Program 2	December, 2012	NZD 11,053	October, 2027	2,719
ADB 3193 Renewable Energy Project	December, 2014	NZD 12,980	June, 2036	9,293
ADB 001-COO(FA-CDF) - Disaster Resilience Program	December, 2019	NZD 15,676	June, 2035	15,676
ADB 3632 - Loan for Undersea Broadband Cable	November, 2018	USD 15,000	2031	24,094
Commercial - Loan for Rarotonga Airport Equipment	January, 2018	NZD 3,206	2033	2,326
ADB 4010 - CPRO Loan	November, 2020	NZD 30,409	June, 2030	30,409
AIIB - CPRO Loan	December, 2020	USD 20,000	June, 2030	32,949
ADB 4161 - Sustainable Economic Recovery Program	December, 2021	NZD 55,540	December, 2036	55,540
Total Loans Drawn Down				231,517
Contingency Loans	<i>Estimated</i>			
ADB 4162 - Precautionary Financing Option (PFO)	<i>May, 2023</i>	NZD 55,540	December, 2036	55,540
ADB - Disaster Resilience Program (Phase 3)	<i>December, 2022</i>	NZD 30,312	June, 2035	30,312
Total Committed/Planned but Undrawn				85,852
Total Loans Commitment by the Crown				317,369

7.5 Other State-Owned Enterprise Debt

Since the enactment of the LRF Act in 2014, all new debt (including SOE debt) must go through a full debt sustainability analysis and be approved by Cabinet (via the Minister of Finance), on the advice of the Financial Secretary.

The existing debt portfolio to the end of June 2023 as illustrated on the graph below, about 21 per cent of Crown debt are on-lent to SOEs. This includes loans on the Crown's balance sheet for the Ports Authority loan (2022: \$17.0 million), the Avaroa Cable Limited loan (2022: \$21.1 million) and a direct local commercial loan by the Airport Authority (2022: \$2.6 million).

Figure 7-10 Overall Debt by SOEs and Direct – June 2023



Airport Authority

The Airport Authority is currently paying off its loan from the commercial bank (2022: \$2.6 million). The estimate includes an additional loan of \$1.0 million for the RESA project and for the building of the Air NZ cargo shed. The loan is to be secured by registered mortgage debenture over the assets and undertakings of the Authority.

Ports Authority

The Ports Authority has applied and approved an extension to the two years of debt repayment holiday from government due to the pandemic's impact on the Authority's revenue. The one-year extension is interest only repayments with the principal being deferred until the end of June 2023.

The debt repayments to ADB during the repayment holiday period will continue to be met by the Crown until financial year 2023/24.

8 Official Development Assistance

Table 8-1 ODA Expenditure

Cook Islands ODA December 2022 Update	(\$'000)
FY2022/23 Half Year Update	105,731
FY2022/23 ODA Budget (excluding CSS)	91,452
FY2022/23 HYEPU estimated spend to date	20,146
Conversion rate December 2022	19%

Total Official Development Assistance (ODA) inclusive of Core Sector Support funding for 2022/23 was valued at \$105.7 million. Estimated expenditure to date is reported at \$20.1 million, representing a 19 per cent spend against the total budget for 2022/23. This includes programmes under Third Party spends and new ODA programmes.

8.1 New Zealand Programmes

Cook Islands Core Sector Support

The Core Sector Support (CSS) Grant Funding Arrangement (GFA) with New Zealand valued at \$31.3 million and allocated over 2019/20 to 2022/23 was signed in 2019. The goal of the support is to enhance the Cook Islands self-sufficiency through the first four years of Graduation to High Income Status by enabling predictable, efficient and effective delivery of priority development objectives coupled with practical policy reform. The Budget Support modality focuses on supporting measures to strengthen the tourism sector, health sector and the education system.

Under the same Core Sector Support Arrangement, New Zealand provided \$5.1 million in funding over the same period to support public sector strengthening through the provision of specialist technical assistance. Technical assistance proposals must demonstrate relevance to the Cook Islands' Public Sector Strategy, broader Public Sector reform/strengthening and the Cook Islands Economic Development Strategy. Total estimated spend to date for this output is \$1,045,458.

Early discussions for a new iteration of Core Sector Support commenced during the Development Sector Committee (DSC) Meeting in March 2022, however a decision is yet to be reached.

COVID-19 Vaccination Programme

The COVID-19 vaccination rollout began on 18 May 2021. With the support of the New Zealand Government, the Cook Islands secured sufficient vaccines to provide full coverage for all our eligible population. Support provided by New Zealand in procuring and delivery of the vaccine to the Cook Islands is estimated at around \$400,000 from May 2021 to June 2022. New Zealand continues to support further rollout of the vaccines in the Cook Islands through the provision of Pfizer vaccines. Expenditure under the Vaccination Support Programme is estimated at \$50,000 since 1 July 2022.

COVID-19 Economic Recovery Budget Support – November 2021

Further support was extended by The New Zealand Ministry of Foreign Affairs and Trade (MFAT) acting through the New Zealand High Commission in Rarotonga in November 2021 through a contribution of \$20 million to the Government of the Cook Islands to strengthen government cash reserves and help fund the immediate costs of supporting livelihoods, social protections, core public services and COVID preparedness in the Cook Islands. This contribution was made available under the New Zealand Aid Programme's Cook Islands programme.

The contribution is managed and administered by MFEM with \$10 million allocated to support immediate expenditure priorities through the General Budget Support; with the balance identified to

support programmes and initiatives to achieve the purposes under the Cook Islands Economic Recovery Roadmap (ERR).

Through 2021/22, the ERR focussed on continuing response measures designed to support businesses and households during the pandemic. From July 2022, the ERR shifted focus to support economic stimulus and reform measures, as well as finalising several longer-term programmes that were carried forward from the Economic Response Plan (ERP), including the Business Continuity Credit Facility (BCCF) measure. Total estimated spend since 1 July 2022 is \$47,453.

Cook Islands-New Zealand Infrastructure Trust Fund

The New Zealand Ministry of Foreign Affairs and Trade (MFAT) acting through the New Zealand High Commission in Rarotonga provided an initial contribution of \$12 million in December 2019 to establish the Cook Islands Infrastructure Trust Fund (ITF). The purposes of the ITF are:

- Investing in physical infrastructure to deliver essential services to Cook Islanders;
- Facilitating implementation of the National Infrastructure Investment Plan (NIIP) or Medium-term Fiscal Strategy (MTFS) and;
- Supporting capability development of Cook Islands' Infrastructure sector (across government and the private sector).

In March 2022, the New Zealand Government made a further grant contribution of \$40 million to the ITF to help stimulate the Cook Islands' economy and strengthen its overall resilience via capital works.

The allocation of trust funds money to infrastructure projects is mutually agreed between the New Zealand and Cook Islands governments, with the allocation and use of money then overseen by the Ministry of Finance and Economic Management (MFEM) for the Cook Islands Government.

Officials from both governments have confirmed priority pipeline projects for the CKI-NZ Infrastructure Trust Fund including: i) Mei Te Vai Ki Te Vai (MTVKTV); ii) Rarotonga International Airport Slab Replacement Project; iii) Manihiki Airport Improvement; iv) Northern Group Renewable Energy; v) Avarua Town Plan and Punanga Nui Market; and vi) Solid Waste Disposal System for Rarotonga.

The Rarotonga International Airport Slab Replacement Project is the first project supported through the ITF. Age and increased frequency in the number of heavy aircrafts have resulted in cracks in 71 slabs along the main trafficked part of the 2500 slabs of the 2328 metre airport runway. Of the 71 cracked slabs, 32 were replaced up to January 2022 with initial funding of \$6.5 million from the ITF. An additional \$1.08 million from the ITF was secured to replace 7 additional slabs. With this additional funding at the completion of Phase 2 a total of 39 slabs have been replaced. Total estimated spend to date for this project is \$40,946.

A further two project proposals from the pipeline are currently undergoing due-diligence before being considered by the ITF Steering Committee.

Manatua Submarine Cable (ICT cable) – New Zealand Grant

Implementing Agencies: Avaroa Cable Limited (ACL)

Total estimated spend to date is: \$719,701

Avaroa Cable Ltd is the crown corporate entity that manages the Cook Islands involvement in the Manatua Cable project and its commercialisation as an international and domestic wholesale operator. ACL constructed the Cook Islands two cable landing stations and oversaw the cable procurement, construction, and deployment. The Manatua Cable has been live since July 2020 and is now carrying contracted revenue generating customer traffic, achieving 100 per cent availability to date.

Key milestones achieved are as follows:

- ACL has secured connectivity through the ‘Western route’ via Samoa and Hawaiki and is now able to offer additional capacity to wholesale customers. This improves resilience and delivers more connectivity for the Cook Islands.
- New entrant to the telecommunications market ManaNet has installed servers and switches in the co-location facility at the Aroa CLS, pending the installation of their network equipment.
- The official opening of the Aitutaki cable landing station facilities was held in July 2022.
- Two of ACL’s Engineering team travelled to Samoa in August 2022 and attended training with SubCom. This has improved the ability of staff to attend to cable cuts which could occur on land.

Rarotonga Airport Upgrade Designs

Implementing Agencies: Airport Authority Cook Islands (AACI)

Total estimated spend to date is: \$574,575

Funding of \$1,473,200 under this Agreement will be provided to Airport Authority Cook Islands (AACI) via the Cook Islands Government to review the airport development plan in light of the impact of COVID-19 on anticipated airport activity, and to fund consulting services to prepare design and tender documentation for the revised airport terminal requirements and strengthening of the airport apron and storm water drainage system. The design work and construction documentation will enable AACI to access construction financing from the private sector, commercial sources or other development partners.

A contract with AirBiz Aviation Strategies Limited was concluded in October 2020 to provide procurement, project management and functional design review services.

The project consists of five phases to advance to the “Construction Tender Package” for the Rarotonga International Airport Terminal Expansion. The five phases consist of the following:

1. Stakeholder consultation, functional and operational requirements, confirming design concepts
2. Preliminary Design and Preliminary cost estimates
3. Developed Design and refined cost estimates
4. Detailed Design and Scheduled
5. Construction Tender Package

In December 2021, Airport Authority Cook Islands concluded a contract with GHD to provide services to deliver phases 1 and 2 for the “Terminal expansion design”. The procurement decision to deliver the remaining three phases will be determined upon completion of phase 2.

In March 2022, AACI concluded a contract with Airport Consultancy Group (ACG) to provide services to the “Apron expansion design”. The scope of works will be conducted in two stages, with five phases approach:

Stage 1: Expansion of Apron to provide parking of 2 wide body aircraft and 1 narrow body aircraft

Stage 2: Expansion east to accommodate 3 turboprop aircraft

A decision on the design of the Stormwater upgrade is yet to be made by AACI.

Improving Geospatial Data - LiDAR

Implementing Agencies: Infrastructure Cook Islands (ICI)

Total estimated spend to date: \$1,483,256

This project aims to address existing data gaps by collecting high-resolution topographic data and associated imagery which will support applications such as the assessment of coastal inundation and flooding hazards, environmental monitoring and management, infrastructure and development

planning, policy development and implementation as well as responses to climate change impacts across the Cook Islands.

Data capture acquisition is completed. Processing of the initial coverage maps obtained through the data capture is progressing well. To date, ICI has received coverage maps for nine islands; Rarotonga, Mangaia, Atiu, Aitutaki, Takutea, Palmerston, Mitiaro and Mauke. Preliminary Quality Assessment (Q&A) of the maps are being undertaken by a Senior CAD & GIS Environment Engineer within ICI. Submission of the remaining initial coverage maps and preliminary Q&A is planned to occur in the months ahead.

Pacific Maritime Safety Programme

Implementing Agencies: Ministry of Transport (MOT)

Total estimated spend to date: \$88,020

This activity will promote and implement safe, reliable, environmentally-friendly and affordable maritime transport services connecting people and markets in the Pacific and meeting international requirements through the following outputs as part of this arrangement:

- Maritime safety education delivered in communities
- Regulatory framework strengthening
- Marine sector education and training
- Vessel and navigation safety improvements
- Search and rescues and oil spill preparedness

Implementation of this activity commenced in March 2022 with development of the Small Motorised Vessel Regulations along with Marine Sector education and training programmes in the Outer Islands.

8.2 European Union Programmes

European Development Fund – Budget Support to the Sanitation Sector

Implementing Agency: Ministry of Finance and Economic Management (MFEM)

Total estimated spend to date: \$367,829

The focus of the incentivized budget support under the EU's 11th cycle of funding (EDF11) will continue with the Cook Islands priority of improving the Sanitation Sector. The Cook Islands submission under the 11th EDF funding cycle approved by the EU focusses on upgrading commercial facility sewage systems on Aitutaki and Rarotonga to meet the *Public Health (Sewage and Wastewater Treatment and Disposal) Regulations 2014* standards. In 2020/21 an amount of \$2 million was received. In 2021/22 expenditure for this project was \$525,934. A balance of \$1,474,066 is appropriated to support project implementation from 1 July 2022, moving forward until all funds have been utilised. The implementing agency for this programme is the Ministry of Finance of Economic Management through its Major Projects and Procurement Support division (MPPS).

Sustainable Fisheries Partnership Agreement - Multiyear (Fisheries) Policy Support

Implementing Agency: Ministry of Marine Resources (MMR)

Total estimated spend to date is: \$572,925

This Sustainable Fisheries Partnership Agreement (SFPA) includes an annual fisheries sector contribution of EUR 350,000 by the European Commission under the 4-year protocol. The sectoral support component of the SFPA supplements the Ministry of Marine Resources Budget Appropriations through the implementation of the Multiannual Sectoral Programme.

The SFPA was signed by the European Union (EU) on 3 May 2016 in Brussels and by the Cook Islands on 14 October 2016 in Avarua and entered into force on 10 May 2017. The EU-CKI SFPA is intended to allow EU vessels to fish for tuna stocks in the Cook Islands exclusive economic zone (EEZ) in a legally regulated environment. The Agreement focuses on resource conservation and environmental sustainability, ensuring that all EU vessels are subject to the same rules of control and transparency. At the same time, a clause concerning respect for human rights has been included in the Protocol to the Fisheries Agreements.

This Agreement has a financial and technical support duration of four years i.e. 2016-2020 in exchange for fishing opportunities. The financial contribution is composed of two parts:

1. Access Rights to the EEZ - contribution is managed and administered by MFEM,
2. Sectoral Support – contribution is managed by MMR.

As a result of the pandemic, which restricted the negotiations for the new SFPA, the four-year (2016–2020) protocol was extended for an additional year (2021). The negotiations for a new 3-year protocol (2022-2024) under the Sustainable Fisheries Partnership Agreement (SFPA) was successfully completed in November 2021.

GCCA+SUPA - GLOBAL CLIMATE CHANGE ALLIANCE PLUS: SCALING UP PACIFIC ADAPTATION (GCCA+SUPA) PROJECT

Implementing Agencies: Office of the Prime Minister (OPM) / Ministry of Marine Resources (MMR)

Total estimated spend to date: \$177,009

This EU funded project focuses on Enhancing a Climate Resilient Marine Sector in the Cook Islands. Implemented by the Pacific Community, the project aims to strengthen adaptive management of marine systems through climate-focused monitoring, education and awareness. Working closely with MMR and Climate Change Cook Islands (CCCI), the project will focus primarily on improving the marine research centre in Aitutaki.

MMR as the implementing agency for Output 1 has completed an assessment of the existing Aitutaki Marine Research Centre (AMRC) infrastructure, including a land survey. The upgrades to the AMRC will include the construction of classrooms, wet/dry laboratories, offices and basic amenities. Construction will begin as soon as the contract is finalized and work is expected to complete by March 2023.

Output 2 being implemented by CCCI involves the integration of climate resilience and traditional knowledge for the marine sector into environment education programmes on the islands of Mauke, Atiu, Mitiaro, Aitutaki and Mangaia. Korero O Te Orau as primary the consultant has completed conducting outreach programmes with four islands. Mangaia is expected to be completed by December 2022.

8.3 Japan Programmes

Economic and Social Sector Programme 2020 – COVID-19 Response Assistance

Implementing Agencies: MFEM

Total estimated spend to date: NIL

The Government of Japan approved a grant of one hundred million Japanese Yen to the Cook Islands in May 2020 to assist in the procurement of medical equipment to support the Cook Islands for building preparedness and capability in its response to COVID-19, and for strengthening the medical capacity of the Cook Islands in the long-term.

Of the 15 priority medical equipment items submitted by the Cook Islands, the Japanese International Cooperation System (JICS) identified interest from suppliers in Japan to provide six specialised medical items. Using JICS procurement process, five of the six items have been procured, received and handed over to Te Marae Ora, which are defibrillators, ultrasonic cleaners, ICU beds, x-ray protection screens and x-ray protection aprons.

Co-financing on the part of government includes exemptions of relevant import VAT taxes in accordance with the VAT Act 1997 for approved ODA imports. Cook Islands Government financial procedures and procurement processes will be adhered to.

Economic and Social Development Programme 2020-2 Water Works and Medical Equipment

Implementing Agencies: MFEM

Total estimated spend to date is: \$42,707

The Government of Japan approved a grant of one hundred and fifty million Japanese Yen to the Cook Islands in November 2021 to procure water works vehicles to support monitoring and management of the water infrastructure and also medical equipment to contribute towards strengthening the Cook Islands health system to better address future unexpected shocks such as the COVID-19 pandemic.

A priority item list has been approved. JICS is the approved procurement agent. Using the JICS procurement process the signing of two contracts were concluded in July 2022. Arrival of the water works vehicles are tentatively scheduled for mid-2023.

Co-financing on the part of government includes exemptions of relevant import VAT taxes in accordance with the VAT Act 1997 for approved ODA imports. Cook Islands Government financial procedures and procurement processes will be adhered to.

Japan Fund for Poverty Reduction (JFPR) - Supporting Safe Recovery of Travel and Tourism in the Cook Islands – (administered by the Asian Development Bank)

Implementing Agencies: MFEM

Total estimated spend to date: NIL

The Supporting Safe Recovery of Travel and Tourism Project will strengthen the capacity and readiness of the Cook Islands to safely receive tourists and support the country's economic recovery from the negative impacts of the COVID-19 pandemic. The project will directly complement the Government of Cook Islands, the business community, and the general public's efforts to revive tourism and rebuild the economy.

Project outputs include i) airport readiness through improvements to the Rarotonga Airport terminal to facilitate safe COVID-19 screening and physical distancing; ii) health readiness through the improvement of a medium-sized health facility and procurement; and iii) installation of a medical waste treatment system.

The proposed project will be the Asian Development Bank's (ADB) first assistance to a Pacific developing member country (DMC) for safe recovery of travel and tourism through financial assistance from the Japan Fund for Poverty Reduction (JFPR). Grant signing is completed and ADB procurement and regulations apply.

8.4 India Programmes

India Grant Fund

Implementing Agencies: MFEM

Total estimated spend to date is: \$176,682

This funding is to assist projects that support, promote, or develop social, cultural, or economic development and sustainability, whilst directly serving the basic needs of the community.

The 2018/19 funding round was advertised in November 2018. A total of 19 concept notes were received in December 2018 and of these, eight were approved by the National Sustainable Development Committee (NSDC) and recommended for approval to the India High Commission. The Memorandum of Understanding (MOU) was signed in October 2021. The Implementation Agreement for each individual project is currently in progress with the implementation commencing in July 2022.

8.5 United Nations Programmes

Global Environment Facility - Renewable Energy Grant (Southern Group) - (administered by Asian Development Bank)

Implementing Agencies: OPM

Total estimated spend to date: NIL

The GEF BESS contract was awarded to M-Power Limited on the 1 June 2017 for a fixed price of US\$3,092,768 (equivalent). A variation for NZ\$103,000 was agreed in August 2018 to allow a larger transformer sizing. Completion and commissioning of Rarotonga airport west BESS for load shifting occurred in September 2019.

The BESS is connected to the existing electricity grid to provide flexible responses to fluctuating Solar PV output in the TAU network. The main function of this BESS is to:

- Minimise the severity and frequency of events that cause low load at the Power Station
- Minimise any curtailment of Solar PV facilities that may be necessary to maintain grid stability

Global Environment Facility – Small Grants Programme

Implementing Partner: Red Cross

Total estimated spend to date is: \$318,974

As a corporate programme of the Global Environment Facility (GEF), the Small Grants Programme (SGP), implemented by the United Nations Development Programme (UNDP) aligns its Operational Phase strategies with those of the GEF and co-financing partners, and provides a global portfolio of *innovative, inclusive, and impactful* projects that address global environmental and sustainable development issues.

The Cook Islands GEF SGP was established in 2005 and was part of the SCP Samoa until 2015. As of late 2014, the Cook Islands Red Cross Society serves as the SGP host institution with the Cook Islands GEF SGP being a separate programme.

Operational Phase 7 (OP7) aims to “effectively support creation of global environmental benefits and the safeguarding of global environment through community and local solutions that complement and add value to national and global level action.” The focus of support for community-based activities are on conservation of biodiversity, waste management, prevention of land degradation, capacity building and awareness programmes to address climate change. Under OP7, an amount of USD250,000 has been allocated to the Cook Islands. Calls for proposal requests under OP7 were issued with successful applicants were announced in July 2022.

8.6 Green Climate Fund Programmes

The Cook Islands can access climate related finance of up to US\$50 million per project directly from the Green Climate Fund (GCF). The country became the first nation in the Pacific to be accredited to the fund which was formed to assist developing countries in adaptation and mitigation practices to counter climate change.

The Ministry of Finance and Economic Management (MFEM), in collaboration with Climate Change Cook Islands (CCCI), have been implementing Readiness programmes since gaining accreditation in 2018 to strengthen agencies capacity implementing GCF projects.

Green Climate Fund Readiness

Implementing Agencies: MFEM – OPM

Total estimated spend to date is \$124,174

The Cook Islands' fourth Readiness Support Grant - Strengthening the Implementation of the Cook Islands Country Program is predominately based on concept note development and capacity building within OPM, MFEM, BCI and the Private sector. The Readiness support is assisting BCI's accreditation to the fund. To date the Cook Islands have submitted two concept notes to GCF under the Simplified Approval Process (SAP) and Enhancing Direct Access (EDA).

The SAP Concept Note to enhance the capacity of the health system of Cook Islands to protect and improve population health in an unstable and changing climate seeks GCF financing of approximately US\$9.9 million. Objectives of the SAP proposal will assist in the following areas:

- Component 1: Strengthening the capacity and capabilities of the Ministry of Health, partners and stakeholders to integrate climate change considerations in their health operations;
- Component 2: Building institutional capabilities to respond to climate change health issues and effectively deliver health services to the population of Cook Islands; and
- Component 3: Preventative measures to reduce health impacts from climate change in communities.

This readiness support programme has completed its implementation as of 9 July 2022. Currently in the final closing out stages.

Green Resilient Recovery – Readiness 5

Implementing Agencies: MFEM, OPM

Total estimated spend to date is \$75,300

The GCF approved Green Resilient Recovery Readiness Support grant for US\$300,000 recently completed legal arrangements to enable implementation. The Green Resilient Recovery (GRR) project is aimed at strengthening the climate change aspects of the Economic Development Strategy (EDS) and the Nationals Sustainable Development Agenda 2020+ (NSDA 2020+).

Activities under the GRR will support Objective 5; “Greening our Economy” of the EDS. The focus of the supplement will be included as part of economy recovery from the impacts of COVID-19, activities to greening the economy and build climate change resilience.

The NSDA 2020+ provides an opportunity to have climate change as a central component of the primary development planning document for the Cook Islands, by increasing and developing the ‘green’ and climate change aspects of this strategy, as it evolves.

The project is currently being implemented with key personnel recruited and consultations to follow.

Increasing the Resilience of the Cook Islands through Enhancing a National Adaptation Programme (ENAP) - Readiness 6

Implementing Agencies: MFEM, OPM

Total estimated spend to date is: \$1,570,000

The GCF has approved the Enhancing the National Adaptation Programme (ENAP) for US\$3 million. Legal arrangements are currently underway to enable implementation. The ENAP is the Cook Islands

sixth grant under Readiness Support. The ENAP is designed to address climate change related knowledge gaps in the Cook Islands adaptation approach, and to strengthen our adaptation planning and legal frameworks to support the implementation of the Country Programme.

The proposed activities will build knowledge and capacity to consider in detail the potential impacts of slow-onset events such as sea-level rise and ocean acidification, and the long-term adaptive response to those impacts. The proposal also includes activities to assess vulnerability of privately-owned infrastructure and climate change impacts on businesses at a sector level.

The ENAP proposal has four specific Outcomes:

- Outcome 3.2. Evidence basis produced to design adaptation solutions for maximum impact.
- Outcome 3.3. Private sector engagement in adaptation catalysed.
- Outcome 3.4. Adaptation finance increased
- Outcome 3.1: Adaptation planning governance and institutional coordination strengthened.

LiDAR imaging and mapping as an activity under Outcome 3.2 have recently completed its data acquisition stage with processing currently underway.

Project Preparation Facility – Building Resilient and Healthy Cook Island Communities

Implementing Agencies: MFEM

Total estimated spend to date is \$350,965.00

A Project Preparation Facility (PPF) application for US\$568,000 was approved by the Green Climate Fund to undertake technical assessments to support the development of a full proposal titled “Building resilient and healthy Cook Island communities”. The planned full project proposal aims to develop, promote and implement increased resilience of the Cook Islands population to the health impacts of climate change. The project will facilitate transformational change within the Cook Islands Health sector by building the technical and institutional capacity to monitor, model and address health related climate change impacts. The project will also strengthen awareness of the health concerns exacerbated by climate change at household and community levels in the outer islands, including undertaking Island Health Assessments that highlight the solutions-based approach to adaptive measures.

The project is currently implementation with key personnel recruited and consultations to follow.

Enhancing climate information and knowledge services for resilience in 5 island countries of the Pacific Ocean – (administered by the United Nations Environment Programme)

Implementing Agencies: MFEM, MOT, OPM

Total estimated spend to date is \$1,000,000

The programme will be administered and implemented by the United Nations Environmental Programme (UNEP) with the Cook Islands expected to benefit up to US\$5.3 million through direct support and up to US\$6 million through regional partners. The legal arrangements between MFEM and UNEP are now completed. Implementation commence in April 2022 pending regional arrangements with other partners.

The high vulnerability to climate change impacts and climate-related hazards arises from geography, exposure of our population and lack of resilience to shocks. The limited adaptation capacity is worsened by financial and human resource constraints and is compounded by an economic reliance on particularly climate sensitive sectors such as farming, fisheries and tourism.

The Cook Islands is highly vulnerable to climate change impacts therefore requires reliable, timely and actionable information and early warning on our local weather, climate and ocean environments as

well as science-based advice on adaptation planning and early action for longer term climate change impacts.

The project aims to support beneficiaries in five countries of the Pacific Ocean through three outcomes:

1. increase generation and use of climate information in decision making;
2. strengthened adaptive capacity and reduced exposure to climate risks; and
3. strengthened awareness of climate threats and risk reduction processes.

The Cook Islands component is currently under implementation with core project oversight committees established. The Project Management Unit (PMU) is now working with other countries and regional technical partners to progress Cook Islands activities.

Green Climate Fund – Renewable Energy Grant (Southern Group) - (administered by the Asian Development Bank)

Implementing Agencies: OPM

Total estimated spend to date is: \$932,724

The Airport South (Battery Energy Storage System (BESS) contract was awarded to Vector on 30 September 2018, which is to implement two units of 1.0 MW/4.0MWh (a total of 2.0MW/8.0MWh) BESS for load shifting capability at the Rarotonga airport south. This BESS is online and maintains constant state of charge and is configured to provide network frequency and voltage support.

The Operations and Maintenance (O&M) technical assistance plan is intended to support initial O&M work, capacity building and training. The funding mechanism for the O&M plan was discussed with ADB during a review mission held in February 2022.

O&M contracts were advertised in January 2021, however no formal contracts offered or confirmed to date. TAU continues to support Pa Enea power station operations independently on each of the islands through the MOU signed between TAU and Island Councils in the meantime.

9 Schedules

9.1 Statement of Fiscal Responsibility (Operating)

	2021/22 Actual	2022/23 Budget Estimate	2022/23 HYEFU Estimate	2023/24 Projection	2024/25 Projection	2025/26 Projection
Operating Revenue						
Taxation Revenue	106,374	139,310	122,946	159,758	172,239	182,730
Other Crown Revenue	58,839	13,251	21,112	13,492	13,507	13,136
Trading Revenue	5,334	4,954	4,954	4,974	4,974	4,974
Interest on Loans to Subsidiaries	303	1,317	2,067	1,908	1,758	1,673
Dividends	0	600	600	760	1,202	1,630
Interest on Balances	277	395	395	200	200	200
Core Sector Support	7,825	7,825	7,825	0	0	0
Total Operating Revenue	178,953	167,652	159,898	181,092	193,880	204,343
Operating Expenditure						
Ministry Outputs	162,318	140,986	131,616	133,646	133,392	132,645
<i>Personnel</i>	63,005	69,481	69,289	69,719	69,758	69,758
<i>Operating</i>	19,863	17,955	17,963	18,125	18,100	18,300
<i>Administered Payments</i>	72,787	46,560	37,375	38,797	38,528	37,582
<i>Depreciation</i>	6,664	6,990	6,990	7,006	7,006	7,006
POBOC	28,168	32,350	32,390	31,052	30,810	30,267
Total Other Operating	12,989	13,707	18,535	17,208	16,538	15,919
Debt Interest Contribution to LRF	5,932	6,780	9,976	10,281	9,611	8,992
Crown Infrastructure Depreciation	4,603	4,603	4,603	4,603	4,603	4,603
Transfer to Emergency Response Trust Fund	50	50	50	50	50	50
Depreciation Contingency Fund	2,174	2,174	2,174	2,174	2,174	2,174
<i>Chinese Equipment</i>	0	0	0	0	0	0
<i>Rarotonga Water Network</i>	803	803	803	803	803	803
<i>Northern Pa Enua Renewable Energy System</i>	400	400	400	400	400	400
<i>Southern Pa Enua Renewable Energy System (excl. Aitutaki)</i>	971	971	971	971	971	971
<i>Other Assets</i>	0	0	0	0	0	0
Contingency Funds - Operating	230	100	100	100	100	100
Contingency Funds – Other Expenses	0	0	1,632	0	0	0
Total Operating Expenses	203,476	187,043	182,542	181,906	180,740	178,832
Operating Surplus/(Shortfall)	-24,523	-19,391	-22,644	-814	13,140	25,511

9.2 Statement of Fiscal Responsibility (Non-Operating)

	2021/22 Actual	2022/23 Budget Estimate	2022/23 HYEFU Estimate	2023/24 Projection	2024/25 Projection	2025/26 Projection
Reductions in Net Borrowings	-48,204	6,273	7,405	11,025	12,713	15,241
Loan Receipts/Drawdown	-55,540	0	0	0	0	0
Principal repayment	7,336	7,737	8,092	13,204	14,903	17,532
Subsidiary Loan Repayments - Principle	0	-1,464	-687	-2,179	-2,190	-2,290
Capital Expenditures	23,820	34,160	34,646	18,257	15,897	15,042
Ministries and Outer Islands (Including CIIC Capital)	23,820	33,310	33,796	18,257	15,897	15,042
<i>Infrastructure Capital Investment in SOEs</i>	0	850	850	0	0	0
<i>Airport Authority</i>	0	850	850	0	0	0
<i>Te Aponga Uira</i>	0	0	0	0	0	0
Contingency Funds - Capital Expenditure	0	0	0	0	0	0
Foreign Aid - Capital	0	0	0	0	0	0
Receipts	11,333	65,148	65,148	864	0	0
Expenditure	-11,333	-65,148	-65,148	-864	0	0
Other Committed Considerations	3,594	3,594	3,594	3,594	3,594	3,594
Transfer to Reserve Trust Fund	0	0	0	0	0	0
Stabilisation Fund	3,544	3,544	3,544	3,544	3,544	3,544
Advanced Subsidiaries - Avaroa Cable Ltd	0	0	0	0	0	0
Infrastructure Trust Fund	0	0	0	0	0	0
Emergency Response Trust Fund	50	50	50	50	50	50
Total Non-Operating balance	-20,790	-44,027	-45,645	-32,876	-32,204	-33,877
To be Funded by						
Operating Surplus	-24,523	-19,391	-22,644	-814	13,140	25,511
Depreciation	13,441	13,767	13,767	13,783	13,783	13,783
<i>of which: R.E. Capital Replacement</i>	1,371	1,371	1,371	1,371	1,371	1,371
General Cash Reserves	18,554	35,084	43,403	-3,628	-19,283	-31,991
<i>Pa Enuu Accrued Savings</i>	0	0	0	0	0	0
<i>Stabilisation Fund</i>	0	0	0	0	0	0
Contribution to Loan Reserve Fund	13,268	14,517	11,069	23,485	24,514	26,524
Transfer IN and OUT of Infrastructure Trust Fund	0	0	0	0	0	0
Transfer to Emergency Response Trust Fund	50	50	50	50	50	50
Total Funding Items	20,790	44,027	45,645	32,876	32,204	33,877
Net Surplus/Shortfall	0	0	0	0	0	0

9.3 Fiscal Indicators Table

	2021/22 Actual	2022/23 Budget Estimate	2022/23 HYEFU Estimate	2023/24 Projection	2024/25 Projection	2025/26 Projection
Statement of Financial Performance						
Taxation Revenue (\$m)	106.4	139.3	122.9	159.8	172.2	182.7
Social Contributions (\$m)	0.0	0.0	0.0	0.0	0.0	0.0
Other Revenue (\$m)	72.6	28.3	37.0	21.3	21.6	21.6
Total Operating Revenue (\$m)	179.0	167.7	159.9	181.1	193.9	204.3
Total Operating Revenue Percentage of GDP	37.3	34.6	29.2	30.1	31.0	31.1
Tax Revenue Percentage of GDP	22.2	28.8	22.5	26.5	27.6	27.8
Total Cyclical Revenue (\$m)	9.8	10.6	9.5	10.5	10.5	10.1
Total Cyclical Revenue Percentage of GDP	2.0	2.2	1.7	1.7	1.7	1.5
Total Structural Revenue (\$m)	169.2	157.0	150.4	170.6	183.4	194.2
Total Structural Revenue Percentage of GDP	35.2	32.4	27.5	28.3	29.4	29.5
Personnel (\$m)	69.9	76.4	76.3	76.7	76.8	76.8
Percentage of Total Revenue	39.0	45.6	47.7	42.4	39.6	37.6
Percentage of Structural Revenue	41.3	48.7	50.8	45.0	41.9	39.5
Total Operating Expenditure (\$m)	203.5	187.0	182.5	181.9	180.7	178.8
Percentage of GDP	42.4	38.6	33.4	30.2	28.9	27.2
Percentage of Operating Revenue	113.7	111.6	114.2	100.4	93.2	87.5
Cash Operating Expenditure*	189.7	173.1	168.7	168.4	167.4	164.9
Operating Balance (\$m)	-24.5	-19.4	-22.6	-0.8	13.1	25.5
Percentage of GDP	-5.1	-4.0	-4.1	-0.1	2.1	3.9
Capital Expenditure	23.8	34.2	34.6	18.3	15.9	15.0
Depreciation	13.4	13.8	13.8	13.8	13.8	13.8
Non-Operating Balance (\$m)	-20.8	-44.0	-45.6	-32.9	-32.2	-33.9
Fiscal Balance surplus/deficit (\$m) *	-34.9	-39.8	-43.5	-5.3	11.0	24.3
Percentage of GDP	-7.3	-8.2	-8.0	-0.9	1.8	3.7
Statement of Financial Position (\$m)						
Assets (\$m)	577.9	611.5	611.5	596.9	594.2	602.6
Liabilities (\$m)	413.2	414.0	414.0	396.9	379.6	363.8
Crown Balance (\$m)	164.7	197.5	197.5	200.0	214.6	238.8
Percentage of GDP	34.3	40.8	36.1	33.2	34.4	36.3
Working Capital (\$m)	62.7	19.4	19.4	2.9	1.1	10.0
Working Capital (months coverage)	4.0	1.3	1.4	0.2	0.1	0.7
Stabilisation Account	3.5	3.5	3.5	3.5	3.5	3.5
General Cash Reserves	66.2	22.9	22.9	6.5	4.7	13.5
Statement of Borrowings (\$m)						
Gross Debt end of FY (\$m)	228.5	229.2	229.2	212.1	194.8	179.0
Excluding Contingency Loan	112.6	-1.0	0.0	0.0	0.0	0.0
Gross Debt, Percentage of GDP	47.6	47.4	41.9	35.2	31.2	27.2
Net Crown Debt, end of FY (\$m)	217.4	225.0	225.0	207.8	190.4	174.5
Net Debt, Percentage of GDP	45.3	46.5	41.1	34.5	30.5	26.5
Loan Repayment Reserves Held (\$m)	11.0	4.2	4.2	4.3	4.4	4.5
Net Debt Servicing (\$m)	13.3	14.5	18.1	23.5	24.5	26.5
Percentage of Total Revenue	7.4	8.7	11.3	13.0	12.6	13.0
Percentage of Structural Revenue	7.8	9.2	12.0	13.8	13.4	13.7
Development Partner Support (\$m)						
Grants (\$m)	23.2	91.5	91.5	19.6	11.2	9.4
Percentage of GDP	4.8	18.9	16.7	3.2	1.8	1.4
Memo item: Nominal GDP (\$m)	480.0	484.0	546.9	602.6	624.6	657.9

9.4 Schedule 1 – Agency Budget Appropriations

Agency	Personnel	Operating	Administered Payments	Depreciation	Gross Current Appropriation	Trading Revenue	Net Current Appropriation
Agriculture	1,095,572	314,509	0	45,000	1,455,081	90,535	1,364,546
Audit (PERCA)	1,026,953	136,201	0	16,000	1,179,154	156,300	1,022,854
Business Trade and Investment Board	365,000	242,266	0	4,000	611,266	27,400	583,866
Cook Islands Investment Corporation	1,458,000	824,000	1,200,000	45,000	3,527,000	753,831	2,773,169
Corrective Services	1,464,326	229,131	0	41,000	1,734,457	100,000	1,634,457
Crown Law	987,500	163,500	425,369	3,000	1,579,369	0	1,579,369
Cultural Development	734,250	128,000	615,000	89,500	1,566,750	170,000	1,396,750
Education	11,958,114	2,451,831	5,150,674	615,000	20,175,619	0	20,175,619
Environment	990,826	201,000	412,241	30,000	1,634,067	35,000	1,599,067
Finance and Economic Management	6,544,508	822,419	11,057,219	260,000	18,684,146	954,341	17,729,805
Financial Services Development Authority	242,797	177,906	30,000	3,000	453,703	0	453,703
Foreign Affairs	1,932,692	1,019,103	15,000	45,000	3,011,795	28,000	2,983,795
Head of State	178,548	22,658	36,000	14,000	251,206	0	251,206
Health	12,833,011	3,648,951	2,536,870	1,570,000	20,588,832	350,000	20,238,832
Infrastructure Cook Islands	2,369,871	379,129	2,480,000	145,000	5,374,000	300,000	5,074,000
Internal Affairs	1,357,376	299,000	3,304,217	12,000	4,972,593	0	4,972,593
<i>of which: Welfare Payments - Allowances</i>			1,307,217				
Justice	2,028,976	350,000	604,806	23,000	3,006,782	425,000	2,581,782
Marine Resources	1,478,942	455,058	150,000	150,000	2,234,000	20,000	2,214,000
Ombudsman	233,000	62,000	0	6,000	301,000	0	301,000
Parliamentary Services	620,100	80,000	137,600	72,720	910,420	0	910,420
Police	4,154,896	286,104	215,000	1,010,000	5,666,000	154,783	5,511,217
Prime Minister's Office	1,557,200	459,000	1,193,000	15,000	3,224,200	0	3,224,200
Public Service Commission	350,000	191,510	1,903,170	5,000	2,449,680	0	2,449,680
Cook Islands Seabed Minerals Authority	590,944	299,056	100,000	9,500	999,500	240,000	759,500
Tourism Corporation	2,300,022	1,319,978	5,808,500	52,000	9,480,500	0	9,480,500
Transport	1,033,337	185,942	0	25,609	1,244,888	41,221	1,203,667
Total Ministries, Crown & Statutory Agencies	59,886,761	14,748,252	37,374,666	4,306,329	116,316,008	3,846,411	112,469,597

Agency	Personnel	Operating	Administered Payments	Depreciation	Gross Current Appropriation	Trading Revenue	Net Current Appropriation
Ministerial Support							
Prime Minister	406,069	121,289	0	12,642	540,000	0	540,000
Deputy Prime Minister	297,800	70,611	0	9,589	378,000	0	378,000
Ministerial Support 1	181,000	115,838	0	11,162	308,000	0	308,000
Ministerial Support 2	164,000	132,000	0	12,000	308,000	0	308,000
Ministerial Support 3	217,500	85,000	0	5,500	308,000	0	308,000
Ministerial Support 4	188,901	109,509	0	9,590	308,000	0	308,000
Leader Of Opposition	163,712	131,462	0	12,826	308,000	0	308,000
Total Ministerial Support Offices	1,618,982	765,709	0	73,309	2,458,000	0	2,458,000
Outer Islands							
Aitutaki	1,240,593	417,547	0	480,000	2,138,140	67,828	2,070,312
Atiu	913,445	458,918	0	430,000	1,802,363	224,318	1,578,045
Mangaia	984,863	611,848	0	210,000	1,806,711	301,000	1,505,711
Manihiki	760,803	159,165	0	460,000	1,379,968	119,000	1,260,968
Mauke	825,143	237,194	0	380,000	1,442,337	113,853	1,328,484
Mitiaro	733,595	88,527	0	93,000	915,122	60,900	854,222
Palmerston	284,152	71,851	0	80,000	436,003	20,500	415,503
Penrhyn	667,783	180,836	0	180,000	1,028,619	74,000	954,619
Pukapuka-Nassau	943,074	155,503	0	215,000	1,313,577	73,695	1,239,882
Rakahanga	429,844	67,761	0	82,000	579,605	52,000	527,605
Total Outer Islands	7,783,295	2,449,150	0	2,610,000	12,842,445	1,107,094	11,735,351
Gross Total	69,289,038	17,963,111	37,374,666	6,989,638	131,616,453	4,953,505	126,662,948

9.5 Schedule 2 – Payments on Behalf of the crown (POBOCS)

Administering Ministry	POBOC	2022/23 Budget Estimate	2022/23 HYEFU Estimate
Compensation of Employees			
Finance & Economic Management	Parliamentary Superannuation	180,000	180,000
Audit	PERC Salaries and Administration Costs	57,500	57,500
Parliamentary Services	Civil List - Personnel	2,901,961	2,901,961
Cultural Development	House of Ariki	326,690	326,690
Compensation of Employees POBOCs		3,466,151	3,466,151
Use of Goods and Services			
Audit	Audit Fees	103,000	103,000
Prime Minister's Office	Local Government Election	0	0
Parliamentary Services	Civil List - Constituency Visits	170,200	170,200
Parliamentary Services	Parliamentary Sitting Expenses	200,000	200,000
Parliamentary Services	QR Travel and Allowances (local and overseas)	109,000	149,000
Parliamentary Services	MP Travel and Allowances (local and overseas)	230,000	230,000
Foreign Affairs	International Maritime Organisation - Maritime Cook Islands	63,461	63,461
Transport	Maritime Radio Coverage	120,000	120,000
Use of Goods and Services POBOCs		995,661	1,035,661
Subsidies			
Cook Islands Investment Corporation	Airport Authority subsidy	2,047,997	2,047,997
Cook Islands Investment Corporation	Bank of the Cook Islands - social assistance subsidy	128,000	128,000
Cook Islands Investment Corporation	Ports Authority - subsidy	110,099	110,099
Cook Islands Investment Corporation	Te Aponga Uira - social assistance subsidy	0	0
Cook Islands Investment Corporation	Te Mana Uira o Araura - subsidy	0	0
Cook Islands Investment Corporation	To Tatou Vai (CI)	3,000,000	3,000,000
Subsidies POBOCs		5,286,096	5,286,096
Social Assistance			
Internal Affairs	Welfare Payments	21,067,190	21,067,190
Social Assistance POBOCs		21,067,190	21,067,190
Other Expense			
Finance & Economic Management	Pacific Catastrophe Risk Insurance	160,000	160,000
Finance & Economic Management	CIG Insurance	40,000	40,000
Finance & Economic Management	BEPS Subscription	45,000	45,000
Finance & Economic Management	Competition and Regulatory Authority	400,000	400,000
Foreign Affairs	International Subscriptions	890,000	890,000
Other Expenses POBOCs		1,535,000	1,535,000
Grand Total		32,350,098	32,390,098

9.6 Schedule 3 – Cook Islands Capital Spending

	2022/23 Budget Estimate	2022/23 HYEFU Estimate
Cook Islands Government Capital programs	34,159,912	34,645,500
Total Capital spending	34,159,912	34,645,500

9.7 Schedule 4 – Official Development Assistance

	2022/23 Budget Estimate	2022/23 HYEFU Estimate
Operating or recurrent expenditure	26,304,809	26,304,809
Capital Project Expenditure	65,147,594	65,147,594
Total Official Development Assistance	91,452,403	91,452,403

9.8 Schedule 5a – Other Expenses & Financing Transactions

Category of Expense	2022/23 Budget Estimate	2022/23 HYEFU Estimate
Contingency Funds - Operating	100,000	100,000
Crown Infrastructure Depreciation	4,603,000	4,603,000
Provisional for Doubtful Debts	0	0
Transfer to Emergency Response Trust Fund	50,000	50,000
Advanced Subsidiaries - Avaroa Cable Ltd	0	0
Transfer to Reserve Trust Fund	0	0
Depreciation Contingency Fund	2,174,000	2,174,000
Total Other Expenses	6,927,000	6,927,000

9.9 Schedule 5b – Loan Reserve Fund Appropriation

Category of Appropriation	2022/23 Budget Estimate	2022/23 HYEFU Estimate
Contribution to LRF - Principal	7,737,276	7,737,276
Contribution to LRF - Interest	6,780,007	6,780,007
Total Contribution to LRF	14,517,283	14,517,283

9.10 Summary

Category of Payment	2022/23 Budget Estimate	2022/23 HYEFU Estimate
Schedule 1 - Ministry Outputs (Gross Operating)	140,985,551	131,616,453
Schedule 2 - POBOCs	32,350,098	32,390,098
Schedule 3 - CIG Capital Expenditure	34,159,912	34,645,500
Schedule 4 - Official Development Assistance	91,452,403	91,452,403
Schedule 5a - Other Expenses and Financing Transactions	6,927,000	6,927,000
Schedule 5b - Loan Reserve Fund Appropriations	14,517,283	14,517,283
TOTAL APPROPRIATION	320,392,247	311,548,737

9.11 Schedule 6 – Capital Schedule

MINISTRY/ ISLAND	Project / Programme	Funding Source	2021/22 Actual	2022/23 Budget Estimate	2022/23 HYEFU Estimate	2023/24 Projection	2024/25 Projection	2025/26 Projection
Audit			31,114	0	0	0	0	0
Rarotonga	TeamMate Software Upgrade	CIG	31,114	0	0	0	0	0
Cook Islands Investment Corporation			5,086,755	7,529,000	7,706,480	4,520,000	3,730,000	4,400,000
Aitutaki	Aitutaki Harbour Dredging	CIG	1,078,430	0	421,570	0	0	0
Aitutaki	Aitutaki Island Plan & Orongo Development Project	CIG	0	500,000	500,000	0	0	0
Rarotonga	Arorangi Prison Remedial works	CIG	120,330	0	29,670	0	0	0
Rarotonga	Government Building Projects - Rarotonga	CIG	2,444,748	1,079,000	1,727,862	1,070,000	1,230,000	0
Rarotonga	Land Acquisition	CIG	0	700,000	700,000	0	0	0
Pa Enua	Pa Enua Government Building Projects - Northern Group	CIG	472,622	500,000	577,378	250,000	500,000	300,000
Pa Enua	Pa Enua Government Building Projects - Southern Group	CIG	400,000	500,000	500,000	100,000		100,000
Rarotonga	Rarotonga Cyclone Shelters - Remediation	CIG	86,226	400,000	400,000	100,000	0	0
Rarotonga	To Tatou Vai	CIG	484,398	3,000,000	2,000,000	3,000,000	2,000,000	2,000,000
Rarotonga	Airport Authority - Rarotonga Airport Slab Replacement	CIG	0	850,000	850,000	0	0	0
Rarotonga	Vaikapuangi Government Building-Design	CIG	0	0	0	0	0	2,000,000
Corrective Services			0	0	50,000	0	0	0
Rarotonga	Prison Development Programme - Strategic Plan	CIG	0	0	50,000	0	0	0
Cultural Development			0	100,000	100,000	0	160,000	0
Rarotonga	Auditorium Equipment Replacement Programme	CIG	0	100,000	100,000	0	160,000	0
Education			413,529	300,000	333,471	300,000	300,000	300,000
National	Fund to be Prioritised by Education	CIG	300,000	300,000	300,000	300,000	300,000	300,000
Rarotonga	Apii Nikao School Sound Proofing	CIG	113,529	0	33,471	0	0	0
Health			980,975	300,000	300,000	300,000	300,000	300,000
National	Fund to be Prioritised by Health for Technical Equipment	CIG	299,964	300,000	300,000	300,000	300,000	300,000
National	CT Scanner	CIG	518,617	0	0	0	0	0
National	Health ICT Upgrade	CIG	35,498	0	0	0	0	0
National	PCR Laboratory	CIG	126,896	0	0	0	0	0
Infrastructure Cook Islands			13,620,733	20,558,001	20,558,001	12,176,800	9,646,800	8,831,800
National	Bridges and Structures Asset Management and Improvement Programme	CIG	4,213,900	6,050,000	6,050,000	3,000,000	1,600,000	1,600,000
National	Drainage Asset Management and Improvement Programme	CIG	2,650,400	500,000	500,000	500,000	1,000,000	1,000,000
Various	Emergency Management and Support Infrastructure	CIG	1,360,801	0	0	0	0	0
Penrhyn	Government Building Projects	CIG	784,230	1,360,781	1,360,781	0	0	0
Various	Pa Enua Air Infrastructure Improvement Programme	CIG	275,416	891,998	891,998	0	0	0
National	Pa Enua Marine Infrastructure Improvement Programme	CIG	0	2,660,000	2,660,000	2,145,000	515,000	0
National	Roads Asset Management and Improvement Programme	CIG	3,843,439	8,730,834	8,730,834	6,531,800	6,531,800	6,231,800
National	Waste Management Infrastructure Improvement Programme	CIG	99,574	100,000	100,000	0	0	0
National	Water and Sanitation Infrastructure Improvement Programme	CIG	392,973	264,388	264,388	0	0	0

MINISTRY/ ISLAND	Project / Programme	Funding Source	2021/22 Actual	2022/23 Budget Estimate	2022/23 HYEFU Estimate	2023/24 Projection	2024/25 Projection	2025/26 Projection
Internal Affairs			0	50,000	100,000	50,000	50,000	50,000
Rarotonga	Vaka Maintenance Capital Projects	CIG	0	50,000	100,000	50,000	50,000	50,000
Ministry of Finance and Economic Management			1,523,565	3,861,911	3,861,911	0	0	0
Rarotonga	FMIS purchase and implementation	CIG	288,743	10,598	10,598	0	0	0
Rarotonga	Te Mato Vai - Rarotonga Water Upgrade	CIG	855,433	0	0	0	0	0
Rarotonga	COVID-19 Response Fund - Capital Needs	CIG	294,190	1,000,000	1,000,000	0	0	0
Rarotonga	Revenue Management System upgrade (RMS10)	CIG	85,200	2,851,313	2,851,313	0	0	0
Office of Prime Minister			1,907,129	751,000	925,637	200,000	1,000,000	450,000
National	Government IT Network	CIG	1,760,766	551,000	551,000	0	800,000	250,000
National	Telecommunications Universal Access Programme	CIG	0	200,000	200,000	200,000	200,000	200,000
National	Renewable Energy Project Management and Support	CIG	146,363	0	174,637	0	0	0
MINISTRY TOTAL			23,563,800	33,449,912	33,935,500	17,546,800	15,186,800	14,331,800
Capital Funds Administered BY MFEM			256,430	710,000	710,000	710,000	710,000	710,000
National	Capital Distribution Fund	CIG	171,998	300,000	300,000	300,000	300,000	300,000
National	Pa Enea Capital Distribution Fund	CIG	17,900	300,000	300,000	300,000	300,000	300,000
Pa Enea	Outer Islands Small Capital Fund	CIG	66,532	110,000	110,000	110,000	110,000	110,000
	<i>Aitutaki</i>		<i>16,003</i>	<i>16,000</i>	<i>16,000</i>	<i>16,000</i>	<i>16,000</i>	<i>16,000</i>
	<i>Atiu</i>		<i>0</i>	<i>12,000</i>	<i>12,000</i>	<i>12,000</i>	<i>12,000</i>	<i>12,000</i>
	<i>Mangaia</i>		<i>10,893</i>	<i>12,000</i>	<i>12,000</i>	<i>12,000</i>	<i>12,000</i>	<i>12,000</i>
	<i>Manihiki</i>		<i>1,819</i>	<i>10,000</i>	<i>10,000</i>	<i>10,000</i>	<i>10,000</i>	<i>10,000</i>
	<i>Mauke</i>		<i>9,453</i>	<i>10,000</i>	<i>10,000</i>	<i>10,000</i>	<i>10,000</i>	<i>10,000</i>
	<i>Mitiaro</i>		<i>4,620</i>	<i>8,000</i>	<i>8,000</i>	<i>8,000</i>	<i>8,000</i>	<i>8,000</i>
	<i>Palmerston</i>		<i>5,325</i>	<i>10,000</i>	<i>10,000</i>	<i>10,000</i>	<i>10,000</i>	<i>10,000</i>
	<i>Penrhyn</i>		<i>10,435</i>	<i>12,000</i>	<i>12,000</i>	<i>12,000</i>	<i>12,000</i>	<i>12,000</i>
	<i>Pukapuka-Nassau</i>		<i>0</i>	<i>12,000</i>	<i>12,000</i>	<i>12,000</i>	<i>12,000</i>	<i>12,000</i>
	<i>Rakahanga</i>		<i>7,985</i>	<i>8,000</i>	<i>8,000</i>	<i>8,000</i>	<i>8,000</i>	<i>8,000</i>
GRAND TOTAL			23,820,230	34,159,912	34,645,500	18,256,800	15,896,800	15,041,800

9.12 Schedule 7 – Revenues on Behalf of the Crown (ROBOCs)

	2021/22 Actual	2022/23 Budget Estimate	2022/23 HYEFU Estimate	2023/24 Projection	2024/25 Projection	2025/26 Projection
Taxation Revenue						
Value Added Tax (VAT)	57,104,593	63,534,338	68,615,840	76,407,352	81,213,805	85,976,106
Income tax	24,759,242	27,822,365	31,222,491	35,605,541	37,264,486	39,007,457
Company tax ²²	6,653,849	17,120,893	-655,809	19,277,786	22,989,521	25,684,703
Import levies	11,967,074	13,806,221	12,874,062	14,592,595	15,868,361	16,733,486
Withholding tax	1,469,218	1,729,693	1,470,225	1,622,195	1,622,195	1,622,195
Departure tax	4,420,182	15,296,594	9,419,197	12,252,717	13,280,404	13,705,965
Total	106,374,158	139,310,104	122,946,007	159,758,186	172,238,772	182,729,912
Other Crown Revenue						
FSC Vested Assets	4,978,325	0	2,309,860	0	0	0
FSC Return of Excess	250,000	125,000	125,000	125,000	125,000	125,000
Immigration Fees	984,456	1,000,000	1,000,000	500,000	500,000	500,000
IMO Subscription - Maritime Cook Islands	0	66,000	66,000	66,000	66,000	66,000
Drivers Licenses	224,154	100,000	100,000	260,000	260,000	260,000
Motor Vehicle Registration	861,884	875,000	875,000	875,000	875,000	875,000
Upper Air Management Agreement	70,252	510,257	520,600	739,800	753,500	780,900
Shipping Registration	89,127	92,000	97,858	97,858	97,858	97,858
International Shipping License	71,256	15,000	15,000	15,000	15,000	15,000
Liquor Licensing	54,943	30,000	50,000	50,000	50,000	50,000
Research Fee	730	1,500	2,000	2,000	2,000	2,000
Permits	31,716	10,409	10,409	10,409	10,409	10,409
Censorship Fees	413	1,000	500	1,000	1,000	1,000
Land Court Fees	160,605	147,000	147,000	147,000	147,000	147,000
Tattslotto Grants	205,721	120,000	120,000	120,000	120,000	120,000
Motor Vehicle Dealers	2,803	3,000	3,000	3,000	3,000	3,000
Court Services	25,030	27,000	27,000	27,000	27,000	27,000
Instant Fines	78,570	0	0	0	0	0

²² Company tax is significantly impacted by a refund of historical company tax in 2022/23, which is why the total appears negative.

	2021/22 Actual	2022/23 Budget Estimate	2022/23 HYEPU Estimate	2023/24 Projection	2024/25 Projection	2025/26 Projection
Fishing Revenues	8,619,597	9,318,370	8,270,833	9,109,224	9,109,224	8,709,224
US Fisheries Treaty (upfront days)	3,428,544	3,243,370	3,140,000	3,243,370	3,243,370	3,243,370
EU Agreement	2,131,551	400,000	1,300,000	400,000	400,000	0
Purse seine fishery	250,379	2,260,000	570,000	2,260,000	2,260,000	2,260,000
Longline Licenses and QMS	2,520,000	3,000,000	3,000,000	3,000,000	3,000,000	3,000,000
Other fisheries and auxiliary vessel licensing	105,500	160,000	133,333	160,000	160,000	160,000
Regional Fisheries Management Organisations - SIOFA and SPRFMO	183,622	255,000	127,500	45,854	45,854	45,854
Fishing Fines and Settlements	0	0	0	0	0	0
Dividends	0	600,000	600,000	760,000	1,202,450	1,630,000
Banana Court - dividend	0	0	0	0	0	0
Bank of the Cook Islands - dividend	0	0	0	0	282,450	350,000
Ports Authority - dividend	0	0	0	0	0	0
Punanga Nui Market - dividend	0	0	0	0	0	0
Te Aponga Uira - dividend	0	0	0	0	0	0
Extraordinary SOE - dividend	0	0	0	0	0	0
Telecom Cook Islands - dividend	0	600,000	600,000	760,000	920,000	1,280,000
Numismatics	674,476	450,000	450,000	1,000,000	1,000,000	1,000,000
Circulating Currency - Coins	436,548	200,000	225,000	225,000	225,000	225,000
Interest on balances	277,473	395,000	395,000	200,000	200,000	200,000
Interest on balances - Loan Reserve Fund	233,074	125,437	220,218	84,627	86,319	88,045
Interest on loans to subsidiaries	303,000	1,317,179	2,066,538	1,908,330	1,758,243	1,673,001
Foreign Investment Fees	28,160	34,000	34,000	34,000	34,000	34,000
Employer Liabilities	0	0	0	0	0	0
Gains on FOREX	0	0	0	0	0	0
Core Sector Support	7,825,000	7,825,000	7,825,000	0	0	0
General Budget Support	40,090,302	0	6,443,101	0	0	0
Unanticipated Revenue received	666,895	0	0	0	0	0
Total Other	67,244,509	23,388,152	31,998,917	16,360,248	16,668,003	16,639,437
Total Crown Receipts	173,618,667	162,698,256	154,944,924	176,118,434	188,906,774	199,369,349

9.13 Schedule 8a – Administered Payments

Administering Ministry	Output	Administered Payment	2021/22 Actual	2022/23 Budget Estimate	2022/23 HYEFU Estimate	2023/24 Projection	2024/25 Projection	2025/26 Projection
Compensation of Employees								
Cook Islands Investment Corporation	1	Infrastructure Committee	100,000	100,000	100,000	100,000	100,000	100,000
Cook Islands Investment Corporation	1	Special Projects Units	420,000	420,000	420,000	420,000	420,000	420,000
Cook Islands Investment Corporation	1	School Security	220,000	230,000	230,000	230,000	230,000	230,000
Cook Islands Investment Corporation	2	Joint Venture with Seabed Minerals Authority	4,872	50,000	50,000	50,000	50,000	50,000
Environment	1	National Heritage Trust	111,325	122,241	122,241	122,241	122,241	122,241
Finance and Economic Management	1	Price Tribunal Committee	45,000	60,000	60,000	45,000	45,000	45,000
Finance and Economic Management	2	The Centre of Research and Policy Studies	40,682	80,000	80,000	80,000	80,000	80,000
Justice	1	Judges Allowances	255,194	300,000	444,806	465,000	465,000	465,000
Justice	2	Project to bring land records up to date	73,597	120,000	120,000	120,000	120,000	120,000
Prime Minister's Office	4	ICT Support Team	177,142	0	0	0	0	0
Prime Minister's Office	8	Marae Moana Ambassador	60,000	60,000	60,000	0	0	0
Public Service Commission	3	HOM's Salaries	1,885,605	1,903,170	1,903,170	1,903,170	1,903,170	1,903,170
Compensation of Employees Administered Payments			3,393,417	3,445,411	3,590,217	3,535,411	3,535,411	3,535,411
Use of Goods and Services								
Cook Islands Seabed Minerals Authority	1	Seabed Minerals Sector Development	65,012	100,000	100,000	0	0	0
Cook Islands Investment Corporation	1	Provision for Land Rentals	495,231	400,000	400,000	400,000	400,000	400,000
Cook Islands Investment Corporation	2	CIG Buildings Repairs & Maintenance	0	0	0	1,000,000	1,000,000	1,000,000
Crown Law	2	Legal Provisions	102,931	50,000	425,369	50,000	50,000	50,000
Crown Law	1	Lexis Nexis - Portal Maintenance	0	0	0	80,000	80,000	80,000
Cultural Development	1	National Events Fund	659,168	500,000	500,000	500,000	500,000	500,000
Cultural Development	1	Te Kopapa Reo Maori Board	14,968	15,000	15,000	15,000	15,000	15,000
Cultural Development	1	Cook Islands Cultural Fund	87,428	100,000	100,000	100,000	100,000	150,000
Education	3	Tertiary Training Institutions	1,148,261	1,160,000	1,100,000	1,160,000	1,160,000	1,160,000
Education	4	Bus Service	26,325	26,325	36,325	26,325	26,325	26,325
Environment	2	EIA Process	149,546	150,000	150,000	150,000	150,000	150,000
Environment	3	Management of Suwarrow Park	99,994	100,000	100,000	100,000	100,000	100,000
Environment	1	Compliance Development	0	40,000	40,000	0	0	0
Finance and Economic Management	1	Public Sector Strengthening-processes and systems	38,113	125,000	125,000	150,000	150,000	150,000
Finance and Economic Management	6	COVID-19 Medical Response Fund	2,995,941	5,000,000	2,500,000	0	0	0
Finance and Economic Management	1	COVID-19 Economic Response Plan	352,363	0	0	0	0	0
Finance and Economic Management	1	Economic Recovery Roadmap	41,282,616	5,200,000	2,650,000	1,400,000	1,200,000	200,000

Administering Ministry	Output	Administered Payment	2021/22 Actual	2022/23 Budget Estimate	2022/23 HYEFU Estimate	2023/24 Projection	2024/25 Projection	2025/26 Projection
Finance and Economic Management	2	The Centre of Excellence in Information Technology (CEIT)	97,417	80,000	80,000	60,000	0	0
Finance and Economic Management	2	Audit of Crown Accounts	30,000	30,000	30,000	30,000	30,000	30,000
Finance and Economic Management	1	Standard and Poors Subscription	65,393	70,000	70,000	70,000	70,000	70,000
Finance and Economic Management	2	Special Investigative and Prosecution Services	30,000	50,000	50,000	50,000	50,000	50,000
Finance and Economic Management	2	Debt Advisory Services	0	60,000	50,000	60,000	60,000	60,000
Finance and Economic Management	2	FMIS Maintenance	48,512	80,000	80,000	80,000	80,000	80,000
Finance and Economic Management	2	Government Broadband Utilities	30,000	30,000	30,000	30,000	30,000	30,000
Finance and Economic Management	3	Border Management System Maintenance	0	155,250	155,250	155,250	155,250	155,250
Finance and Economic Management	3	Post Tax Amnesty Work	126,166	0	0	0	0	0
Finance and Economic Management	2	Cook Islands Red Cross	0	50,000	50,000	50,000	50,000	50,000
Finance and Economic Management	3	IGOR - International Exchange of Information system upgrade	0	88,900	88,900	7,800	7,800	7,800
Foreign Affairs	5	Cook Islands Student Association Support	0	10,000	10,000	10,000	10,000	10,000
Foreign Affairs	5	Returned Services Association	2,669	5,000	5,000	5,000	5,000	5,000
Head Of State	1	Domestic Hosting Entertainment	14,963	15,000	15,000	15,000	15,000	15,000
Head Of State	1	QR Social Responsibility Fund	8,000	8,000	8,000	8,000	8,000	8,000
Head Of State	1	Head of State Rent	13,000	13,000	13,000	13,000	13,000	13,000
Health	4	Pharmaceuticals	1,167,725	1,167,800	1,167,800	1,167,800	1,167,800	1,167,800
Health	1	Law and Order Clinical Psychologist	0	90,000	90,000	90,000	90,000	90,000
Infrastructure Cook Islands	3	Bridges and Stream Structure Maintenance	166,414	700,000	700,000	700,000	700,000	700,000
Infrastructure Cook Islands	5	Waste Management	728,878	730,000	730,000	730,000	730,000	730,000
Infrastructure Cook Islands	4	Road and Drainage Asset Management	812,641	850,000	850,000	800,000	800,000	800,000
Infrastructure Cook Islands	1	Emergency Response Work	77,119	200,000	200,000	200,000	200,000	200,000
Internal Affairs	2	Internal Affairs Youth Program	45,017	45,000	45,000	45,000	45,000	45,000
Internal Affairs	4	Vaka Maintenance	400,163	400,000	400,000	450,000	450,000	450,000
Internal Affairs	5	Lease extension	36,000	72,000	72,000	72,000	72,000	72,000
Parliamentary Services	1	Special Select Committee	17,334	120,000	120,000	120,000	120,000	120,000
Parliamentary Services	2	Remuneration Tribunal Committee	2,400	0	17,600	0	0	0
Police	1	Search and Rescue	6,242	20,000	20,000	20,000	20,000	20,000
Police	1	Serious Crime Investigations	64,772	100,000	100,000	100,000	100,000	100,000
Police	1	Te Kukupu - Biannual Slipping	0	0	0	0	0	0
Police	1	Te Kukupu - Fuel Contribution	29,723	50,000	50,000	50,000	50,000	50,000
Police	2	Police Youth Program	36,460	45,000	45,000	45,000	45,000	45,000
Prime Minister's Office	1	Social Responsibility Fund	358,553	363,000	363,000	363,000	363,000	363,000

Administering Ministry	Output	Administered Payment	2021/22 Actual	2022/23 Budget Estimate	2022/23 HYEFU Estimate	2023/24 Projection	2024/25 Projection	2025/26 Projection
Prime Minister's Office	1	Community Support Fund	95,250	100,000	100,000	100,000	100,000	100,000
Prime Minister's Office	3	Pa Enea Mechanical Overseer	92,322	100,000	100,000	120,000	120,000	120,000
Prime Minister's Office	6	Red Cross	33,396	0	0	0	0	0
Prime Minister's Office	3	Pa Enea Machinery Maintenance Fund	82,372	100,000	100,000	100,000	100,000	100,000
Prime Minister's Office	4	OPM ICT Activities	0	250,000	250,000	290,000	278,000	278,000
Prime Minister's Office	4	Pa Enea Connectivity	0	200,000	200,000	250,000	250,000	250,000
Tourism Corporation	1	Marketing Resources - Tourism Growth Strategy	3,190,487	4,500,000	5,808,500	4,500,000	4,500,000	4,500,000
Finance and Economic Management	6	Tarai Vaka Fund	1,300	20,000	20,000	20,000	20,000	20,000
Financial Services Development Authority	1	Tax Law Review	80,000	30,000	30,000	0	0	0
		Use of Goods and Services Administered Payments	55,508,585	23,964,275	20,555,744	16,108,175	15,836,175	14,886,175
Subsidies								
Education	3	University of the South Pacific Contribution	208,477	205,000	205,000	205,000	205,000	205,000
Finance and Economic Management	1	Airline Underwrite	1,000,000	10,000,000	3,000,000	10,000,000	10,000,000	10,000,000
Finance and Economic Management	2	Subsidy of audio/visual broadcasting in Pa Enea	45,000	45,000	45,000	45,000	45,000	45,000
Finance and Economic Management	2	Asian Infrastructure Investment Bank (AIIB) Membership	30,280	30,500	30,500	30,500	30,500	30,500
Finance and Economic Management	1	Universal Access Fund	0	400,000	400,000	400,000	400,000	400,000
Finance and Economic Management	6	Provision for Inter Island Shipping	490,000	500,000	1,070,000	500,000	500,000	500,000
		Subsidies Administered Payments	1,773,757	11,180,500	4,750,500	11,180,500	11,180,500	11,180,500
Social Assistance								
Education	2	Government Funded Scholarships	777,220	780,000	830,000	780,000	780,000	780,000
Health	1	NCD Fund	195,000	195,000	195,000	195,000	195,000	195,000
Health	4	Patient Referrals	1,951,243	850,000	850,000	850,000	850,000	850,000
Health	5	Workforce Development	234,070	234,070	234,070	234,070	234,070	234,070
Internal Affairs	1	Welfare Payments - Allowances	1,309,503	1,307,217	1,307,217	1,310,199	1,313,557	1,317,086
Justice	1	Legal Aid	3,925	40,000	40,000	40,000	40,000	40,000
		Social Assistance Administered Payments	4,470,961	3,406,287	3,456,287	3,409,269	3,412,627	3,416,156

Administering Ministry	Output	Administered Payment	2021/22 Actual	2022/23 Budget Estimate	2022/23 HYEFU Estimate	2023/24 Projection	2024/25 Projection	2025/26 Projection
Other Expense								
Cook Islands Investment Corporation	2	To Tatou Vai	2,991,122	0	0	0	0	0
Education	2	Private School Funding	2,785,631	2,663,277	2,979,349	2,663,277	2,663,277	2,663,277
Finance and Economic Management	2	Production of new currency, transportation and sale of old coins	14,770	350,000	350,000	350,000	350,000	350,000
Finance and Economic Management	4	National Census	257,431	0	42,569	0	0	0
Internal Affairs	2	SIF - Cook Islands Government Contribution	999,828	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000
Internal Affairs	5	CISNOC Grant	370,000	370,000	470,000	370,000	370,000	370,000
Marine Resources	3	Fisheries Development Facility	199,998	150,000	150,000	150,000	150,000	150,000
Internal Affairs	5	Religious Advisory Council	4,802	10,000	10,000	10,000	10,000	10,000
Prime Minister's Office	9	State Events	16,283	20,000	20,000	20,000	20,000	20,000
Other Expenses Administered Payments			7,639,865	4,563,277	5,021,918	4,563,277	4,563,277	4,563,277
Grand Total			72,786,585	46,559,750	37,374,666	38,796,632	38,527,990	37,581,519

9.14 Schedule 8b – Payments on Behalf of Crown (POBOCs)

Administering Ministry	Output	POBOC	2021/22 Actual	2022/23 Budget Estimate	2022/23 HYEFU Estimate	2023/24 Projection	2024/25 Projection	2025/26 Projection
Compensation of Employees								
Finance and Economic Management	2	Parliamentary Superannuation	179,825	180,000	180,000	180,000	180,000	180,000
Audit (PERCA)	3	PERC Salaries and Administration Costs	49,564	57,500	57,500	57,500	57,500	57,500
Parliamentary Services	1	Civil List - Personnel	2,855,496	2,901,961	2,901,961	2,901,961	2,901,961	2,901,961
Parliamentary Services	1	House of Ariki	377,791	0	0	0	0	0
Cultural Development	1	House of Ariki (CI)	0	326,690	326,690	336,690	336,690	336,690
		Compensation of Employees POBOCs	3,462,676	3,466,151	3,466,151	3,476,151	3,476,151	3,476,151
Use of Goods and Services								
Audit (PERCA)	2	Audit Fees	83,900	103,000	103,000	103,000	103,000	103,000
Parliamentary Services	1	Civil List - Constituency Visits	169,993	170,200	170,200	170,200	170,200	170,200
Parliamentary Services	1	Parliamentary Sitting Expenses	184,007	200,000	200,000	200,000	200,000	200,000
Parliamentary Services	1	MP Travel and Allowances (local and overseas)	191,685	230,000	230,000	250,000	250,000	250,000
Parliamentary Services	1	QR Travel and Allowances (local and overseas)	69,101	109,000	149,000	109,000	109,000	109,000
Transport	2	Maritime Radio Coverage	120,000	120,000	120,000	120,000	120,000	120,000
Prime Minister's Office	3	Local Government Election	0	0	0	0	50,000	0
Foreign Affairs	5	International Maritime Organisation - Maritime Cook Islands	0	63,461	63,461	63,461	63,461	63,461
		Use of Goods and Services POBOCs	818,686	995,661	1,035,661	1,015,661	1,065,661	1,015,661
Subsidies								
Cook Islands Investment Corporation	2	Bank of the Cook Islands - social assistance subsidy	128,000	128,000	128,000	128,000	128,000	128,000
Cook Islands Investment Corporation	2	Airport Authority subsidy	2,047,992	2,047,997	2,047,997	1,500,000	1,000,000	500,000
Cook Islands Investment Corporation	2	Ports Authority - subsidy	110,099	110,099	110,099	110,099	110,099	110,099
Cook Islands Investment Corporation	2	Te Aponga Uira - social assistance subsidy	0	0	0	0	0	0
Cook Islands Investment Corporation	2	Te Mana Uira o Araura - subsidy	0	0	0	0	0	0
Cook Islands Investment Corporation	2	To Tatou Vai (CI)	0	3,000,000	3,000,000	2,000,000	2,000,000	2,000,000
		Subsidies POBOCs	2,286,091	5,286,096	5,286,096	3,738,099	3,238,099	2,738,099
Social Assistance								
Internal Affairs	1	Welfare Payments	20,168,236	21,067,190	21,067,190	21,286,718	21,495,003	21,502,277
		Social Assistance POBOCs	20,168,236	21,067,190	21,067,190	21,286,718	21,495,003	21,502,277

Administering Ministry	Output	POBOC	2021/22 Actual	2022/23 Budget Estimate	2022/23 HYEFU Estimate	2023/24 Projection	2024/25 Projection	2025/26 Projection
Other Expense								
Finance and Economic Management	2	Pacific Catastrophe Risk Insurance	159,939	160,000	160,000	160,000	160,000	160,000
Finance and Economic Management	1	Competition and Regulatory Authority	413,716	400,000	400,000	400,000	400,000	400,000
Finance and Economic Management	2	BEPS Subscription	37,095	45,000	45,000	45,000	45,000	45,000
Foreign Affairs	5	International Subscriptions	781,718	890,000	890,000	890,000	890,000	890,000
Finance and Economic Management	2	CIG Insurance	39,991	40,000	40,000	40,000	40,000	40,000
		Other Expenses POBOCs	1,432,459	1,535,000	1,535,000	1,535,000	1,535,000	1,535,000
Grand Total			28,168,148	32,350,098	32,390,098	31,051,629	30,809,914	30,267,188

9.15 Schedule 9a – Debt Servicing Schedule (\$'000)

Creditor	2021/22 Actual	2022/23 Budget Estimate	2022/23 HYEUFU Estimate	2023/24 Projection	2024/25 Projection	2025/26 Projection
Asian Development Bank (ADB)						
Principal	4,572	5,052	5,052	8,681	10,069	11,862
Interest	4,481	5,419	5,419	5,875	5,593	5,234
Total Debt Servicing to ADB	9,053	10,471	10,471	14,556	15,662	17,095
People's Republic of China (EXIM)						
Principal	2,764	2,685	2,685	2,798	2,838	2,862
Interest	570	500	500	465	415	361
Total Debt Servicing to China	3,334	3,185	3,185	3,262	3,252	3,222
Asian Infrastructure Investment Board (AIIB)						
Principal	0	0	0	1,549	2,068	2,747
Interest	881	861	861	876	832	769
Total Debt Servicing to AIIB	881	861	861	2,425	2,901	3,515
Total Servicing of Other Debt	13,268	14,517	14,517	20,243	21,815	23,833

9.16 Schedule 9b – Loan Reserve Fund (LRF) Schedule (\$'000)

Transaction	2021/22 Actual	2022/23 Budget Estimate	2022/23 HYEUFU Estimate	2023/24 Projection	2024/25 Projection	2025/26 Projection
Opening Balance in LRF	10,795	11,011	11,011	4,231	4,316	4,402
Contribution to LRF - Principal	7,336	7,737	1,092	13,204	14,903	17,532
Contribution to LRF - Interest	5,932	6,780	9,976	10,281	9,611	8,992
Total Transfer into LRF by Government	13,268	14,517	11,069	23,485	24,514	26,524
Interest earned by LRF (avg. 2%)	216	220	220	85	86	88
Total inflows	13,484	14,737	11,289	23,570	24,601	26,612
Repayment of prepaid SOE Debt						
Contribution from LRF - Principal	758	670	725	710	702	724
Contribution from LRF - Interest	66	57	62	54	46	40
Total Repayment of SOE Debt	823	728	787	763	749	764
Repayment of Other Debt						
Contribution from LRF - Principal	6,578	7,067	7,367	12,494	14,200	16,807
Contribution from LRF - Interest	5,866	6,723	9,914	10,228	9,565	8,952
Total Repayment of Other Debt	12,444	13,789	17,282	22,722	23,766	25,759
Total Principal paid out of the LRF	7,336	7,737	8,092	13,204	14,903	17,532
Total Interest paid out of the LRF	5,932	6,780	9,976	10,281	9,611	8,992
Total outflows	13,268	14,517	18,069	23,485	24,514	26,524
Other Movements - revaluation	0	0	0	0	0	0
Closing balance of LRF	11,011	11,231	4,231	4,316	4,402	4,490

9.17 Schedule 10 – Official Development Assistance Schedule

Agency	Development Partner	Programs/Projects by Agency	2021/22 Actual	2022/23 Budget Estimate	2022/23 HYEFU Estimate	2023/24 Projection	2024/25 Projection	2025/26 Projection
Cook Islands General Budget Support								
MFEM	New Zealand	Cook Islands Core Sector Support - Budget Support	7,825,000	7,825,000	7,825,000	0	0	0
MFEM	China	COVID-19 Co-operation	90,302	0	0	0	0	0
MFEM	New Zealand	COVID-19 Response - 3rd Phase Support	30,000,000	0	0	0	0	0
MFEM	New Zealand	COVID-19 Economic Recovery Support - November 2021	10,000,000	0	6,443,101	0	0	0
Total General Budget Support			47,915,302	7,825,000	14,268,101	0	0	0
Recurrent ODA Expenditure								
MFEM	New Zealand	Cook Islands Core Sector Support - TA Component	992,361	1,275,000	1,275,000	0	0	0
MFEM	New Zealand	COVID-19 Economic Recovery Support - November 2021	3,509,356	47,543	47,543	0	0	0
MOH	New Zealand	COVID-19 Vaccination Programme	216,504	100,000	100,000	0	0	0
Police	Australia	Upgrade to Police National Command, Control and Coordinating Centre	0	0	0	0	0	0
MFEM	China	COVID-19: Cooperation Cash Grant to support recovery	0	28,215	28,215	0	0	0
MFEM	China	COVID-19 Co-operation Cash Grant for Administration	0	50,000	50,000	0	0	0
MFEM	ADB	APDRF COVID-19 Emergency Response Project	0	0	0	0	0	0
MFEM	Japan	Grant Assistance for Grassroots Projects	277,770	600,000	600,000	0	0	0
MFEM	India	India Grant Fund	0	680,000	680,000	200,000	200,000	200,000
MFEM	UN Adaptation Fund	Pa Enua Action for Resilient Livelihoods (PEARL)	1,071,521	100,000	100,000	0	0	0
MFEM	Green Climate Fund	UNOPs COK-RS-003: Green Climate Fund Readiness 4	622,147	450,000	450,000	0	0	0
MFEM	Green Climate Fund	GCF COK-PPF-039: Building Resilient and Healthy Cook Islands Communities	17,059	775,544	775,544	86,171	0	0
MFEM	Green Climate Fund	UNEP FP147: Enhancing Climate Information and Knowledge Services	35,260	1,647,335	1,647,335	3,974,861	966,486	780,820
MFEM	Green Climate Fund	UNEP FP147: Enhancing Climate Information and Knowledge Services	10,000	2,431,758	2,431,758	3,225,689	1,454,424	975,185
MFEM	Green Climate Fund	UNOPs COK-RS-005: Enhancing a National Adaptation Programmes	0	1,899,061	1,899,061	1,634,758	375,530	0
MFEM	Green Climate Fund	UNOPs COK-RS-004: Green Resilient Recovery Rapid Readiness Support	10,804	453,235	453,235	0	0	0
MFEM	Green Climate Fund	Enhanced Direct Access - Project Preparation Facility	0	136,364	136,364	318,182	0	0
MFEM	Green Climate Fund	DAE Direct Support Readiness	0	100,000	100,000	100,000	0	0
MFEM	European Union	Budget Support to the Sanitation Sector	0	154,524	154,524	0	0	0
OPSC	New Zealand	NZ Volunteer Services Aboard	0	500,000	500,000	500,000	500,000	500,000
MFEM	Japan	JICA Training and Development	0	125,000	125,000	125,000	125,000	125,000
MFEM	UNDP	Pacific Parliamentary Development Project	173,300	0	0	0	0	0
MFEM	ADB	Technical Assistance Support	250,000	500,000	500,000	500,000	250,000	250,000
MFEM	UNDP	UNDP SDG Financing Joint Programme - DFA	15,005	51,135	51,135	0	0	0
MFEM	New Zealand	COVID-19 Rapid Impact Assessment Survey CI NSO	85,527	35,000	35,000	0	0	0
MFEM	Other	Aid Effectiveness	100,000	100,000	100,000	100,000	100,000	100,000
OPM	GEF	National Adaptation to CC	0	0	0	0	0	0
OPM	GEF	Fourth National Communications - UNFCCC	0	495,454	495,454	322,727	322,727	322,727
OPM	ADB	E-Government TA Support	0	0	0	0	0	0
OPM	SPC	GCCA + SUPA - Enhancing a Climate Resilient Marine Sector	570,922	146,469	146,469	33,898	0	0
MMR	SPC	GCCA + SUPA - Enhancing a Climate Resilient Marine Sector	0	375,348	375,348	118,644	0	0
MOH	UNDP	Western Pacific Multi-Country Integrated HIV/TB programme - UNDP	67,910	90,000	90,000	90,000	90,000	90,000

Agency	Development Partner	Programs/Projects by Agency	2021/22 Actual	2022/23 Budget Estimate	2022/23 HYEFU Estimate	2023/24 Projection	2024/25 Projection	2025/26 Projection
MOH	WHO	WHO Biennium Budget Support	0	152,000	152,000	152,000	152,000	152,000
MOH	UNICEF	UNICEF Health and Nutrition Programme	130,000	335,350	335,350	17,650	0	0
MOT	UNDP	Disaster Resilience for Small Pacific Islands (RESPAC Cook Islands)	0	0	0	0	0	0
MMR	European Union	Sustainable Fisheries Partnership Agreement - Sectoral Support 2016 - 2021	150,000	612,594	612,594	0	0	0
MMR	European Union	Sustainable Fisheries Partnership Agreement - Sectoral Support 2022 - 2024	0	581,395	581,395	581,395	581,395	0
MMR	Japan	Japan Trust Fund	0	0	0	0	0	0
MMR	Forum Fisheries Agency	Project Development Fund - US Fisheries Treaty	0	206,439	206,439	206,439	206,439	206,439
MFAI	Forum Fisheries Agency	Project Development Fund - US Fisheries Treaty	0	30,303	30,303	30,303	30,303	30,303
MFAI	New Zealand	PACER Plus Outreach and Consultation	0	0	0	0	0	0
MFAI	Korea	Korea Grant Aid	0	303,030	303,030	303,030	303,030	303,030
NES	UNDP	6th National Report to the Convention Biological Diversity	0	0	0	0	0	0
NES	GEF	Ridge to Reef (National)	0	0	0	0	0	0
NES	GEF	Nagoya Protocol on Access to Genetic Resources and Benefit Sharing	0	100,000	100,000	0	0	0
ICI	SPC	Managing Water Scarcity through Strengthened Water Resource Management	73,816	0	0	0	0	0
INTAFF	ILO	OSH Awareness Campaign Program	47,176	35,143	35,143	0	0	0
INTAFF	ILO	Labour Force Survey	0	0	0	0	0	0
INTAFF	UNESCO	UNESCO Social Protection for persons with disability (Pilot Project)	300,000	300,000	300,000	200,000	0	0
MOCD	Other	National Archive Digitization Programme MOCD	140,301	80,000	80,000	0	0	0
MOCD	UNESCO	Intangible Cultural Heritage Funds Programme	57,621	48,600	48,600	0	0	0
MOT	New Zealand	CI Pacific Maritime Safety Programme	0	285,000	285,000	0	0	0
NES	UNEP	HCFC Phase-Out Management Plan for PIC Stage I & 2	0	90,145	90,145	29,651	0	0
NES	UNEP	Institutional Strengthening Project (ISP)	0	30,000	30,000	14,900	14,900	0
NES	GEF	Minimata Convention on Mercury	0	53,814	53,814	0	0	0
INTAFF	UNDP	UNPRPD Cook Islands Joint Programme	0	23,789	23,789	0	0	0
OPSC	ADB	Strengthening of the Cook Islands Public Sector TA	0	300,000	300,000	0	0	0
MOH	SPC	Technical/In Kind Support	0	163,934	163,934	0	0	0
ICI	SPREP	Pac Waste Plus	0	380,000	380,000	100,000	100,000	0
MMR	Australia - SPC	Cook Islands Coastal Fisheries and Aquaculture TA	0	371,032	371,032	371,032	0	0
MMR	Australia - SPC	Otolith Laboratory	0	96,469	96,469	0	0	0
MFEM	New Zealand	Cook Islands Domestic ICT Connectivity Improvements	0	3,000,000	3,000,000	0	0	0
REDCROSS	Global Environment Facility	GEF Small Grants Programme	375,000	378,788	378,788	378,788	378,788	378,788
MFEM	Other	Small Projects Grant funding	2,597,166	5,000,000	5,000,000	5,000,000	5,000,000	5,000,000
Total Recurrent ODA Expenditure			11,896,526	26,304,809	26,304,809	18,715,118	11,151,024	9,414,292
Capital ODA Expenditure								
MFEM	Japan	Non-Project Grant Aid - Palmerston Cyclone Centre	0	0	0	0	0	0
MFEM	New Zealand	Manatua Polynesian Cable Project	867,257	727,262	727,262	0	0	0
MFEM	New Zealand	Assets Management	2,896,769	100,000	100,000	0	0	0
MFEM	New Zealand	Mei Te Vai Ki Te Vai (MTVKTV)	686,397	585,990	585,990	0	0	0

Agency	Development Partner	Programs/Projects by Agency	2021/22 Actual	2022/23 Budget Estimate	2022/23 HYEFU Estimate	2023/24 Projection	2024/25 Projection	2025/26 Projection
MFEM	New Zealand	Cook Islands Infrastructure Trust Fund	1,027,808	44,419,984	44,419,984	0	0	0
MFEM	New Zealand	Cook Islands Infrastructure Trust Fund - Rarotonga Airport Refurbishment	2,000,000	0	0	0	0	0
MFEM	European Union	Budget Support to the Sanitation Sector	108,050	1,474,066	1,474,066	0	0	0
MFEM	Japan	Economic Social Development Programme 2018	870,558	4,051	4,051	0	0	0
MFEM	Japan	Economic Social Development Programme 2020-1 COVID-19 Response Assistance	797,383	701,474	701,474	0	0	0
MFEM	Japan	Economic Social Development Programme 2020-2	62,796	994,495	994,495	864,405	0	0
MFEM	Japan	Inter-Island freight & passenger ship	0	3,000,000	3,000,000	0	0	0
ICI	Japan	Japan Grassroots Human Security - Resource Recovery Centre Upgrades	0	0	0	0	0	0
OPM	GEF	Renewable Energy Grant (Southern Group)	300,776	681,818	681,818	0	0	0
OPM	Green Climate Fund	Renewable Energy Grant (Southern Group)	1,367,283	5,000,000	5,000,000	0	0	0
OPM	EU-German Development Cooperation	Northern Water Project Phase 2	0	0	0	0	0	0
AAFI	New Zealand	Rarotonga Airport Upgrade Designs	347,585	1,264,638	1,264,638	0	0	0
MFEM	ADB	JFPR - Supporting Safe Recovery of Travel and Tourism in Cook Islands	0	2,900,000	2,900,000	0	0	0
ICI	New Zealand	Improving Geospatial Data - LiDAR	0	1,500,000	1,500,000	0	0	0
ICI	SPC	Strengthening Water Security of Vulnerable Island States	0	73,816	73,816	0	0	0
ICI	SPC	Managing Water Scarcity through Strengthened Water Resources Project Fund 2	0	1,720,000	1,720,000	0	0	0
Total Capital ODA Expenditure			11,332,663	65,147,594	65,147,594	864,405	0	0
Total NZD Equivalent ODA Funding			71,144,491	99,277,403	105,720,504	19,579,523	11,151,024	9,414,292
Total NZD Equivalent ODA Funding – (excluding GBS)			23,229,189	91,452,403	91,452,403	19,579,523	11,151,024	9,414,292

10 Financial Statements

10.1 Statement of Financial Performance

	2021/22 Actual	2022/23 HYEFU Estimate	2023/24 Projection	2024/25 Projection	2025/26 Projection
Revenue					
Taxation Revenues	106,374	122,946	159,758	172,239	182,730
Trading Revenue	5,334	4,954	4,974	4,974	4,974
Interest Revenue	511	615	285	286	288
Dividends	0	600	760	1,202	1,630
Core Sector Support	7,825	7,825	0	0	0
Other Revenue	58,606	20,892	13,407	13,421	13,048
Total Revenue	178,650	157,832	179,183	192,122	202,669
Expenditure					
Crown Appropriation	155,655	124,627	126,641	126,386	125,640
Depreciation	13,441	13,767	13,783	13,783	13,783
Payments on Behalf of Crown	28,168	32,390	31,052	30,810	30,267
Debt-servicing interest	5,629	7,910	8,373	7,853	7,319
Other expenditure	280	1,782	150	150	150
Total Expenditure	203,172	180,476	179,998	178,982	177,159
NET OPERATING SURPLUS / (SHORTFALL)	-24,523	-22,644	-815	13,140	25,511
Grants					
Foreign Aid Revenue	11,897	26,305	18,715	11,151	9,414
Foreign Aid Expenses	11,897	26,305	18,715	11,151	9,414
Grant Balance	0	0	0	0	0
Net Operating Balance after Grants	-24,523	-22,644	-815	13,140	25,511

10.2 Statement of Financial Position

	2021/22 Actual	2022/23 HYEFU Estimate	2023/24 Projection	2024/25 Projection	2025/26 Projection
Assets					
Working Capital Fund	62,688	19,384	2,935	1,112	9,984
Stabilisation Fund	3,544	3,544	3,544	3,544	3,544
General Cash Reserves	66,232	22,928	6,479	4,656	13,528
Loan Repayment Fund	11,011	4,232	4,316	4,403	4,491
Disaster Response Trust Fund	2,028	2,078	2,128	2,178	2,228
Other Trust Funds	46,314	46,314	46,314	46,314	46,314
Other Assets	155,700	155,700	155,700	155,700	155,700
Advances to SOEs	41,954	39,542	35,918	32,788	30,933
Plant, property, and equipment	254,663	340,690	346,028	348,142	349,402
Total Assets	577,902	611,482	596,883	594,180	602,594
Liabilities					
Creditors and other payables	132,507	132,507	132,507	132,507	132,507
Trust liabilities	52,261	52,261	52,261	52,261	52,261
Borrowings	228,460	229,191	212,108	194,828	179,009
Total Liabilities	413,228	413,959	396,876	379,597	363,777
Net Crown Balance	164,674	197,523	200,007	214,584	238,817

10.3 Statement of Borrowings

	2021/22 Actual	2022/23 HYEFU Estimate	2023/24 Projection	2024/25 Projection	2025/26 Projection
Total Gross Borrowing	228,460	229,191	212,108	194,828	179,009
Assets held against Borrowings					
Advances to Subsidiaries	41,954	39,542	35,918	32,788	30,933
Loan Repayment Fund (LRF)	11,011	4,232	4,316	4,403	4,491
Total Assets Held Against Borrowings	52,965	43,773	40,234	37,191	35,423
Total Net Borrowing	175,494	185,418	171,874	157,638	143,585

10.4 Statement of Cashflow

	2021/22 Actual	2022/23 HYEFU Estimate	2023/24 Projection	2024/25 Projection	2025/26 Projection
Cashflows from Operating Activities					
<u>Cash provided from:</u>					
Taxation Revenues	106,374	122,946	159,758	172,239	182,730
Trading Revenue	5,334	4,954	4,974	4,974	4,974
Interest Revenue	277	395	200	200	200
Foreign Aid Income	23,229	91,452	19,580	11,151	9,414
Core Sector Support	7,825	7,825	0	0	0
Other Revenue	58,606	20,892	13,407	13,421	13,048
	201,646	248,464	197,918	201,984	210,366
<u>Cash applied to:</u>					
Crown Appropriation	155,655	124,627	126,641	126,386	125,640
Depreciation	0	0	0	0	0
Payments on Behalf of the Crown	28,168	32,390	31,052	30,810	30,267
Foreign Aid Expense	11,897	26,305	18,715	11,151	9,414
Net Debt-Servicing Interest	0	0	0	0	0
Other Expenditure	280	1,782	150	150	150
	195,999	185,104	176,558	168,497	165,471
Net Cashflows from Operating Activities	5,647	63,360	21,361	33,487	44,894
Cashflows from Financing Activities					
<u>Cash provided from:</u>					
Subsidiary Loan Repayments	303	3,648	4,087	3,948	3,963
Other Investment Receipts	0	600	760	1,202	1,630
	303	4,248	4,847	5,150	5,593
<u>Cash applied to:</u>					
Capital expenditure	23,820	34,646	18,257	15,897	15,042
Capital expenditure - foreign aid	11,333	65,148	864	0	0
Advances to Subsidiaries	0	0	0	0	0
	35,153	99,793	19,121	15,897	15,042
Net Cashflows from Investing Activities	-34,850	-95,545	-14,274	-10,746	-9,448
Cashflows from Financing Activities					
<u>Cash provided from:</u>					
Loans Drawdown	55,540	0	0	0	0
Other Financing Receipts	30	0	0	0	0
	55,570	0	0	0	0
<u>Cash applied to:</u>					
Loan Repayment Fund	13,215	11,069	23,485	24,514	26,524
Other Reserves	50	50	50	50	50
Other Financing Payments	0	0	0	0	0
	13,265	11,119	23,535	24,564	26,574
Net Cashflows from Financing Activities	42,305	-11,119	-23,535	-24,564	-26,574
Net cash movements	13,102	-43,304	-16,449	-1,823	8,872
Opening General Cash Balance	53,130	66,232	22,928	6,479	4,656
Closing General Cash Reserve	66,232	22,928	6,479	4,656	13,528

10.5 Statement of Financial Risks

Quantifiable Contingent Liabilities	(\$'000)
Guarantees and indemnities	50
Uncalled capital	2,500
Legal proceedings and disputes	400
Vested Assets	25,400
Total Quantifiable Contingent Liabilities	28,400

The total quantifiable contingent liabilities are estimated at \$28.4 million in 2022/23. This is made up of the guarantees and indemnities outlined below. Possible liabilities stemming from the Outer Island Governments are also discussed.

10.5.1.1 Guarantees and indemnities relate to the following

Government has entered into a program under the New Zealand Aid Programme focused on Pearl Sector Support managed through the Cook Islands Pearl Authority. Through the program the government has agreed to guarantee up to \$0.5 million as security for loans associated with the Pearl Production Credit Scheme. The full guarantee has been included as a contingent liability.

10.5.1.2 Uncalled Capital

Uncalled capital relates to shares in the Asian Development Bank – Cook Islands Government Property Corporation owns 88 uncalled shares with a value of US\$13,500 each.

10.5.1.3 Legal Proceedings and Disputes

Total quantifiable risk to the Crown under legal proceedings and disputes is \$0.4 million.

10.5.1.4 Financial liabilities relating to Island Governments

Currently, MFEM has not approved any of the Island Governments to take out any contract or security that could result in a potential liability for the Crown.

In terms of public liability or other indemnity, the Island Governments are not treated differently to other government agencies. The capacity for the Island Governments to generate such liabilities is estimated to be low. No risk mitigation has been undertaken to ameliorate risk any more than for other government bodies that are based in Rarotonga.

Unpaid invoices are a potential risk that would be difficult to mitigate without tighter financial controls than those imposed on other government agencies. Island Governments are fully covered by the MFEM Act, MFEM financial policies and procedures, and are accountable to the National Audit Office and the Cook Islands Parliament.

11 Statement of Accounting Policies

There have been no changes since the 2022/23 Budget. There are no major changes to accounting policies anticipated in the foreseeable future.

11.1 Basis of Preparation

11.1.1 Reporting Entity

These financial statements are for the Government of the Cook Islands. These consist of:

- Ministries
- Crown and statutory agencies
- Ministerial support offices
- Island Governments
- State owned enterprises

11.1.2 Statement of Compliance

The financial statements in Chapter 10 have been prepared in accordance with the Ministry of Finance and Economic Management Act 1995-96 and the International Public Sector Accounting Standards (IPSAS).

11.1.3 Measurement Base

The financial statements have been prepared on the going concern assumption and the accounting policies have been applied consistently throughout the period except where stated elsewhere in this Statement of Accounting Policies.

These financial statements have been prepared using the historical cost method to report results, cash flows and the financial position of the Crown. The financial statements have been prepared under the accrual basis of accounting and are presented in New Zealand dollars rounded to the nearest thousand dollars.

11.2 Significant Accounting Policies

The following accounting policies, which significantly affect the measurement of financial performance, financial position and cash flows have been applied.

11.2.1 Basis of Consolidation

The government Ministries, Public Enterprises and Other Authorities (including State Owned Enterprises) comprising the reporting entity are consolidated involving addition of like items of assets, liabilities, revenues and expenses on a line-by-line basis.

The effect of all material inter-entity transactions and balances are eliminated on consolidation.

Commitments and contingent liabilities of Public Enterprises and Other Authorities are reported in the Statements of Commitments and of Contingent Liabilities.

11.2.2 Associate

An associate is an entity over which the Crown has significant influence where the entity is neither a subsidiary nor an interest in a joint venture. Investment in an associate is recognised at cost and the carrying amount is increased or decreased to recognise the Crown's share of the surplus or deficit

after the date of acquisition. When the Crown transacts with an associate, all surplus and deficits related to the Crown are eliminated. Distributions received from an associate reduce the carrying value of the investment in the Crown Financial Statements.

11.2.3 Revenue

Revenue is measured at fair value of the consideration received or receivable.

11.2.3.1 Revenue Levied through the Crown's Sovereign Power

Payment of tax does not of itself entitle a taxpayer to an equivalent value of services or benefits, such revenue is received through the exercise of the Crown's sovereign power. Revenue arising through taxes is recognised when the taxable event occurs and when the criteria for recognition of revenue is met.

Revenue Type	Revenue Recognition Point
Individual Income Tax	Individual income tax is recognised when individual tax return forms are filed and payment has been received by Revenue Management Division.
Company Income Tax	Company income tax is recognised when individual company tax return forms are filed and payment has been received by Revenue Management Division.
Withholding Tax	Withholding tax is recognised upon payment being received by Revenue Management Division
Value Added Tax	VAT is recognised when individual monthly VAT return forms are filed and payment has been received by Revenue Management Division.
Customs levies	Customs levies are recognised upon payment being received by Revenue Management Division.
Departure Tax	Departure tax is included in the cost of airfares charged by Airlines to its customers. Departure tax is recognised upon payment being received by Revenue Management Division from the respective Airlines.
Other Revenue	When the debt to the Crown arises.

11.2.4 Revenue Earned Through Operations

Revenue from sales of goods/services is recognised when the product/service is sold to the customer.

11.2.4.1 Sales of goods and services

Revenue from the supply of goods and services to third parties is measured at the fair value of consideration received.

Revenue from the supply of goods is recognized when the significant risks and rewards of ownership have been transferred to the buyer. Revenue from the supply of services is recognized on a straight-line basis over the specified period for the services unless an alternative pattern of recognition better represents the stage of completion of the transaction.

11.2.4.2 Fines

Fines are economic benefits or services potentially received by the Crown from an individual or other entity, as determined by a court or other law enforcement body, as consequence of the individual or other entity breaching the requirements of laws and regulations.

11.2.4.3 Investment Income

Investment income is earned from the leasing or rental of Crown assets to third parties that is neither a Crown entity nor a Crown related party. Investment income is recognised in the period in which it is earned.

11.2.4.4 Gains

Realised gains arising from sale of assets or from the early settlement of a liability are recognised in the Statement of Financial Performance in the period in which the transaction is concluded.

11.2.4.5 Dividends

Dividends are recognised when the right to receive the payment has been established.

11.2.4.6 Aid (Development Partners) Revenue

Aid revenue relates to funding received from aid donors for specified projects. Funding received in advance is recorded as aid liability and recognized as revenue when allowable costs, capital or non-capital, are incurred and any conditions are met.

Where allowable costs have been incurred but funding not received, government recognises a receivable up to the amount of approved funding. Aid funding received that do not have any conditions are recognized as revenue.

11.2.4.7 Donated Assets

Where a physical asset is gifted or acquired by government for nil or at a subsidized cost, the asset is recognized at fair value and the difference between the consideration provided and the fair value of the asset is recognized as aid revenue.

11.2.5 Expenses

Expenses are recognised when incurred and are reported in the financial period to which they relate.

11.2.5.1 Welfare Benefits

Welfare benefits are recognised in the period to which the payment of these benefits relates to.

11.2.5.2 Grants and Subsidies

Where grants and subsidies are discretionary until payment, the expense is recognised when the payment is made. Otherwise, the expense is recognised when the specified criteria have been fulfilled and notice has been given to the Crown.

11.2.5.3 Losses

Realised losses arising from sales of assets or the early settlement of a liability are recognised in the Statement of Financial Performance in the period in which the transaction is concluded.

11.2.5.4 Foreign Currencies

Transactions in foreign currencies are translated into New Zealand dollar (NZD) using the exchange rate on the date of the transaction. Foreign exchange gain and losses arising from these transactions are included in the Statement of Comprehensive Revenue and Expenses.

Any monetary assets and monetary liabilities held at year end are translated at the exchange rate at the balance sheet date.

11.2.5.5 Aid Expenses

Expenses are recognised when incurred on approved projects and are reported in the financial period to which they relate.

11.2.5.6 Depreciation

Each part of an item of plant, property, and equipment with a cost significant in relation to the total cost of the item shall be depreciated separately.

Depreciation of plant, property and equipment is provided on a straight-line basis so as to allocate the cost of assets to their estimated value over their estimated useful lives. Typically, the estimated useful lives for various asset types are follows:

Asset Type	Useful Life
Office and computer equipment	3 – 4 years
Motor vehicles	5 years
Furniture and fittings	4 – 10 years
Plant and Equipment	5 – 15 years
Buildings and improvements	20 - 40 years
Coastal protection	25 years
Power distribution network	20 years
Road network	30 years
Water network	15 years
Airport runways	15 – 100 years
Harbour and ports structures	10 – 20 years
Waste management facilities	15 years
Plant and equipment tools	4 – 5 years
Marine equipment	5 years
Specialised buildings and other buildings	15 years

11.2.6 Non-Current Assets

11.2.6.1 Investment Property

Investment property is property held either to earn rental income or for capital appreciation or for both, but not for sale in the ordinary course of business, use in the production or supply of goods or services or for administrative purposes. Investment property is measured at cost on initial recognition and subsequently at cost less accumulated depreciation. Residential buildings held for the primary purpose of providing low-income housing have been classified as property, plant, and equipment.

Cost includes expenditure that is directly attributable to the acquisition of the investment property. The cost of self-constructed investment property includes the cost of materials and direct labor, any other costs directly attributable to bringing the investment property to a working condition for their intended use and capitalized borrowing costs.

Any gain or loss on disposal of an investment property (calculated as the difference between the net proceeds from disposal and the carrying amount of the item) is recognized in the statement of financial performance.

11.2.6.2 Plant, Property, and Equipment

Plant, property and equipment is recorded at cost less accumulated depreciation.

The cost of purchased plant, property and equipment is the value of the consideration given to acquire the assets and the value of other directly attributable costs which have been incurred in bringing the assets to the location and condition necessary for their intended service.

The cost of assets constructed by the Crown includes the cost of all materials used in construction, direct labour on the project, financing costs that are directly attributable to the project and an appropriate proportion of variable and fixed overheads. Costs cease to be capitalised as soon as the asset is ready for productive use and do not include any inefficiency costs.

11.2.6.3 Disposals

When an item of plant, property and equipment is disposed, the gain or loss (disposal proceeds less carrying value) associated with that item will be recognised in the Statement of Comprehensive Revenue and Expenses.

11.2.6.4 Impairment

If the estimated recoverable amount of an asset is less than the carrying amount, the asset is written down to its estimated recoverable amount and an impairment loss is recognised in the Statement of Comprehensive Revenue and Expenses.

11.2.6.5 Additions

The cost of an item of plant, property and equipment is recognised as an asset if, and only if, there will be future economic benefits evident and where these benefits will flow to the Crown and the cost of the item can be measured reliably.

11.2.6.6 Work in Progress

Work in Progress is recognised as cost less impairment and is not depreciated.

11.2.6.7 Infrastructure Assets

Infrastructure assets are recorded at cost less accumulated depreciation.

Infrastructure assets are accounted for the same way as property, plant and equipment

Infrastructure assets include: road networks, water networks, power distribution networks, coastal protection systems, harbour and ports structures, and waste management and airport assets. When an infrastructure asset is disposed of, the gain or loss (disposal proceeds less carrying value) associated with that item will be recognised in the Statement of Comprehensive Revenue and Expenses.

11.2.6.8 Intangible Assets

Intangible assets are software acquisition costs and are recorded at cost less accumulated amortisation and accumulated impairment losses.

The cost of purchased intangible assets is the value of the consideration given to acquire the assets and the value of other directly attributable costs which have been incurred in bringing the assets to the location and condition necessary for their intended service. Intangible assets might include: databases, software purchased, or software developed.

When an intangible asset is disposed of, the gain or loss (disposal proceeds less carrying value) associated with that item will be recognised in the Statement of Comprehensive Revenue and Expenses.

Amortisation of intangible assets is on a straight-line basis so as to allocate the cost of assets to their estimated residual value over their estimated useful lives. Typically, the estimated useful lives are:

Asset Type	Useful Life
Software, databases	3 - 5 years

11.2.6.9 Cash and Cash Equivalents

Cash and cash equivalents include cash on hand, deposits held at call with banks, other short term highly liquid investments with original maturities of three months or less and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities in the statement of financial position.

11.2.6.10 Debtors and other receivables

After initial recognition, loans and receivables are measured at amortised cost less any provision for impairment. Gains and losses when assets are impaired or derecognised are recognised in the Statement of Comprehensive Revenue and Expenses.

Tax receivables have been calculated on a subsequent receipt basis. All tax revenue received in the years subsequent to 30 June 2022 has been disclosed as tax receivables at year end.

11.2.6.11 Inventories

Inventories held for distribution or consumption in the provision of services that are not supplied on a commercial basis are measured at cost. Where inventories are acquired at no cost or for nominal consideration, the cost is the current replacement cost at the date of acquisition.

Inventories held for use in the production of goods and services on a commercial basis are valued at the lower of cost and net realisable value.

11.2.6.12 Investments

Investments in associates are accounted for in the consolidated financial statements using the equity method. That is, investments in associates are initially recognised at cost and the carrying amount is increased or decreased to recognise the Crown's share of the surplus or deficit of the associate after the day of acquisition.

11.2.6.13 Banking portfolio investments

Loans are valued at net realisable value after provisions. Applicable security is obtained depending on the size and nature of loans. Non-performing loans are reviewed monthly on a case-by-case basis.

11.2.6.14 Provision for doubtful debts

Provision is made for taxation debt where recovery is considered doubtful.

Provision is made for banking portfolio Investments (specific loans) where recovery is considered doubtful or they have become non-performing. The accounting policy relating to measuring the impairment of loans and advances requires the Bank to assess impairment at least at each reporting date. The credit provisions raised represent management's best estimate of the losses incurred in the loan portfolio at balance date based on their experienced judgement and in accordance with the Financial Supervisory Commission's (FSC) guidelines.

The use of such judgements and reasonable estimates is considered by management to be an essential part of the process and does not impact on reliability. Management regularly reviews and adjusts the estimates and methodologies as improved analysis becomes available. Changes in these assumptions and methodologies could have a direct impact on the level of provision and impairment. There is no general provision against banking portfolio Investments.

All bad debts are written off against specific provisions in the period in which they become classified as irrecoverable.

11.2.6.15 Aid (Development Partner) Assets

Donor funds are deposited into bank accounts until expensed on approved assets. Where an asset is acquired at no cost, or is donated for use by the Crown or other Crown entity, it is recognised at fair value as at the date of acquisition.

11.2.7 Liabilities

11.2.7.1 Borrowings

Borrowing liabilities are accounted for at amortised cost on the Statement of Financial Position. Any changes are recognised in the Statement of Comprehensive Revenue and Expenses. Borrowings or the proportion of borrowings expected to be settled within 12 months of balance date are disclosed as current liabilities in the statement of the financial position. All other borrowings are disclosed as non-current liabilities.

11.2.7.2 Pension Liabilities

Pension liabilities, in respect of the contributory service of current and past Members of Parliament, are recorded at the latest (30 June 1997) actuarial value of the Crown's liability for pension payments. There are no pension liabilities accruing to the Crown as a result of government employees' membership of the Government Superannuation Fund (New Zealand).

11.2.7.3 Aid Liabilities

Funds received from various donors are treated as liabilities until expensed on approved projects at which stage the funding is included within the Statement of Comprehensive Revenue and Expenses as revenue.

11.2.7.4 Employee Entitlements

These include salaries and wages accrued up to balance date, annual level earned but not yet taken at balance date. A long service bonus is paid out on the completion of 3 years continuous service within the government. The bonus is equivalent to a fortnight pay of the employee.

11.2.7.5 Other Liabilities

All other liabilities are recorded at the estimated obligation to pay. No liability for ongoing welfare payments has been recognised because no legal entitlement is considered to exist beyond the end of the current financial year until a new Appropriation Act is passed and is provided for on a pro-rata basis in the statement of financial position. Annual leave and long service leave to be settled within 12 months of the balance date, are classified as current liability. All other employee entitlements are classified as a non-current liability.

11.2.7.6 Provisions

Government recognises provisions when there is a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. The amount recognised as a provision should be the best estimate of the present obligation at the reporting date, considering the risks and uncertainties surrounding the obligation at that time. Where a provision is measured using the cash flows estimated to settle the present obligation, the carrying amount is the present value of those cash flows.

11.2.8 Cash Flow

A cash flow statement identifies the sources of cash inflow, the items on which cash was utilised and the cash balance at the reporting date. Included in the cash flow statement are financing activities which are activities that result in the change of size and composition of the contributed capital and borrowings of the Crown.

Investing activities are the acquisition and disposal of long-term assets and other investments. Operating activities identify how much the Crown received from its actual operations.

Cash flow information allows users to ascertain how the Crown raised the cash required to fund activities and the manner in which that cash was utilised. The direct cash flow method has been applied.

11.2.9 Leases

Finance leases transfer, to the Crown as lessee, substantially all the risks and rewards incidental to the ownership of an asset. The obligations under such leases are capitalised at the present value of minimum lease payments. The capitalised values are amortised over the period in which the Crown expects to receive benefits from their use.

Operating leases, where the lessors substantially retain the risks and rewards of ownership, are recognised in a systematic manner over the term of the lease. Operating leases are recognised as an expense in the Statement of Comprehensive Revenue and Expenses in the periods in which they are incurred.

The cost of leasehold improvements is capitalised and amortised over the lesser of the leasehold improvement's useful life or the original lease term.

11.2.10 Commitments

Commitments are future expenses and liabilities to be incurred on contracts that have been entered into at balance date.

Commitments are classified as:

- Capital commitments: aggregate amount of capital expenditure contracted for but not recognised as paid or provided for at balance date, and
- Lease commitments: non-cancellable operating leases with a lease term exceeding one year.
- Interest commitments on debts, commitments for funding, inventory and commitments relating to employment contracts are not separately reported as commitments.

11.2.11 Contingent Liabilities

Contingent liabilities are recorded when a possible obligation has arisen from an event in the past and which the existence will only be confirmed through the occurrence or non-occurrence of future events. Such liabilities will be disclosed if they are deemed to materially affect the reading of the presented financial statements.

11.2.12 Changes in Accounting Policies

There have been no changes to the accounting policies. All policies were applied on a consistent basis with the prior year.