Economic Planning Division

Cook Islands Economic Bulletin

April 2020

Stimulus versus austerity: the COVID-19 Economic Response Plan

Introduction

The view last quarter looked fine

In December last year, the 2019/20 Half-Year Economic and Fiscal Update (HYEFU) reported on an enviable 7-year run of strong economic growth for the Cook Islands starting in 2014, with 5.3 per cent real growth in Gross Domestic Product (GDP) in 2018/19 and tourist arrivals reaching a new high of nearly 170,000 in the year to June 2019.[1] Growth was forecast to moderate but still remain strong at 3.5 per cent in 2019/20 and 2.2 per cent in 2020/21, with arrivals expected to continue to rise to about 174,000 by 2020/21.

Thanks to this strong growth run, the Cook Islands was confronting a positive output gap, with concerns that should the gap persist for an extended period of time, capacity constraints such as labour and skills shortages would strengthen, resulting in inflationary pressure.

The 2019/20 HYEFU also reported a robust financial outlook for 2020/21 with low net debt to GDP ratio (17.7 per cent), a healthy fiscal balance of -0.2 per cent of GDP (returning to surplus in 2021/22) and more than 3 months of cash reserves, all comfortably within the Government's Medium-term Fiscal Strategy (MTFS) rules. In addition, the Government placed $56.7 million in a new Stabilisation Account to be used during periods of economic contraction.

And then from left field a pandemic appears …

Fast forward three months to March 2020 and the Cook Islands now faces an unprecedented economic shock as a result of the Coronavirus COVID-19 pandemic sweeping the globe. Governments around the world have responded to the public health crisis with lock downs of the local economy and severe travel restrictions, with the Cook Islands adding travel restrictions of its own.

Almost overnight international visitors to the Cook Islands have fallen off a cliff with negligible numbers expected in the final (June) quarter of this financial year, with a slow recovery starting from the end of the first (September) quarter 2020/21. Revised forecasts now show a 13.5 per cent fall in visitor numbers in 2019/20 to about 144,000, with further falls expected in 2020/21.

The Government's Economic Response Plan

The Government acted swiftly with its Economic Response Plan, a $61 million 3-stage package of increasing support and stimulus measures providing temporary social and economic support for individuals and businesses to mitigate economic disruption in the short-term and position the economy for recovery post-pandemic. Implementation of Stage 1 & 2 has commenced following the passing of the 2019/20 Supplementary Budget, with Stage 3 to follow in the 2020/21 Budget in June.

In an economy as dependent on tourism as the Cook Islands is, the impact on GDP, partially offset by the Government's stimulus package, is expected to be immediate and substantial, with real economic growth forecast to contract 4.4 per cent in 2019/20, with a further 5.9 per cent fall in 2020/21, based on current assumptions in a fast-changing environment. This is very likely to fall within the common definition of an economic recession, which is two consecutive quarters of declines in quarterly real economic growth.

Despite the robust starting point of Government finances, the additional Stage 1 & 2 stimulus expenditure in the Supplementary Budget, along with a downward revision of Government revenues, has necessitated a temporary departure from the fiscal rules (which the MTFS permits in the current circumstances). This allows the Government to draw on funds that have accumulated in the Government's operating balance through strong revenues during the current year to date and the Stabilisation Account.

As a result of the additional expenditure, lower revenue and decline in GDP, by the end of 2020/21 the fiscal balance is expected to fall to -5.2 per cent of GDP and cash reserves to drop to less than 1 month of cover, both outside their respective rule threshold. Although no additional debt is required right now, the net debt to GDP ratio is expected to rise to 21.3 per cent simply due to the drop in GDP.

What happens in the June 2020/21 Budget?

All three fiscal ratios will come under increased pressure in the 2020/21 Budget in June as expenditure required for Stage 3 of the Economic Response Plan is appropriated. Having applied our cash reserves to Stage 1 & 2 stimulus measures, and in the absence of a substantial cash (grant) injection from a donor partner, this includes the potential for a rising net debt to GDP ratio as the Government considers taking on new debt to fund ongoing stimulus measures.

Further debt financing is also likely be required once the immediate pandemic is over and it is time to return to the important business of bridging our critical infrastructure gap – a wastewater solution for Muri and upgrading telecommunications services in the Pa Enua, to name but two – all of which will improve the future productivity of our economy.

This brings us to the critical public policy question that is the subject of this Bulletin. What is the best course of action for the Government to combat the immediate economic recession and, should the global economic impacts drag on post-crisis, ensure that the recession doesn't turn into a great depression?

Do we continue to respond with additional, temporary fiscal stimulus measures, knowing that more borrowing will lead to increasing budget deficits? Or do we abandon stimulus in favour of the opposite path of fiscal probity – cutting government spending to reduce government deficits and debt in the belief that this will inspire business-boosting confidence – an approach known as austerity?

Keynesians versus the 'austerians'

Most governments have two major tools to influence economic growth during an economic recession. The first is monetary policy. This usually involves a country's central bank lowering interest rates or increasing the money supply to bring down the cost of borrowing to stimulate demand household and business demand. The second is fiscal policy. This entails a temporary increase in government expenditure and/ or tax cuts, again with the intent of stimulating demand. It is important to note that the Cook Islands Government only has fiscal policy in its arsenal, due to the adoption of the New Zealand dollar as its currency, which rules out monetary policy options.

This brings us to the 'stimulus versus austerity' fiscal policy debate that has raged in political and academic circles since the Great Depression of the 1930s and reemerged in the aftermath of the 2008 global financial crisis and its economic downturn.

In the one corner are the 'Keynesians' who support fiscal stimulus. Seidman (2012) describes them as advocates of temporary fiscal stimulus (government spending and/or tax cuts) to raise aggregate demand to combat a recession even though this entails government deficits and debt.[2] John Maynard Keynes is the main protagonist of course, with later supporters such as the Economics Nobel Laureate Paul Krugman.[3] This approach is often referred to as 'counter-cyclical fiscal policy'.

In the opposing corner are the Classical (or neo-classical) camp – or 'austerians' that oppose fiscal stimulus (on the basis that it will do harm by raising government debt) in favour of austerity – cutting government spending to reduce government deficits and debt during a recession, with the economy either automatically curing a recession itself (through movements in prices, including wages) or monetary stimulus alone being sufficient. The Classicists follow the Classical economists such as Jean-Baptiste Say, David Ricardo and John-Stuart Mill, and in more recent times the 'Chicago School' economists such as Milton Friedman and Gary Becker.

Box 1: Defining austerity and stimulus

Austerity:

- the condition of living without unnecessary things and without comfort, with limited money or goods, or a practice, habit, or experience that is typical of this;
- a situation in which a government spends as little money as possible because of bad economic conditions.

Stimulus:

- something that causes growth or activity.

Stimulus package:

- a set of actions by a government, bank, etc. that is intended to encourage activity and growth in the economy or in a particular industry or area.

Source: Cambridge Dictionary: https://dictionary.cambridge.org/.

Having highlighted the differences between the two camps, we should briefly mention a couple of important things they generally agree on.

Both camps support a monetary response to recessions, albeit with Keynesians seeing monetary policy playing Robin to their fiscal Batman. Both camps also support fiscal discipline over the long-term. Krugman (2015), a ferocious stimulus advocate, notes:

> It's true that you can't run big budget deficits for ever (although you can do it for a long time), because at some point interest payments start to swallow too large a share of the budget. But it's foolish and destructive to worry about deficits when borrowing is very cheap and the funds you borrow would otherwise go to waste.[4]

The focus of this debate, and this Bulletin, is therefore on the merits of short-term, temporary policy measures to combat an economic recession.

How does stimulus affect economic output?

In order to understand the effects of fiscal stimulus on economic output – or Gross Domestic Product as the most common measure of output – it is useful to first revisit the several ways of calculating GDP.

Measuring GDP

GDP is the total monetary or market value of all the finished goods and services produced within a country's borders in a specific time period. The three common methods: production, expenditure and income; as shown in Box 2, should conceptually all produce the same answer. The production approach is used by the Cook Islands Statistical Office to produce its quarterly GDP(P) estimates, which MFEM uses as the primary data source for its economic forecasts.

Box 2: GDP measurement methods

GDP (Production)	GDP (Expenditure)	GDP (Income)
Value added from each of the main sectors of the economy: • primary – e.g. agriculture • secondary e.g. construction • tertiary e.g. trade.	Private consumption expenditure (*C*) plus business investment (*I*) plus government spending (*G*) plus NX (exports minus imports) $C + I + G + NX$ = aggregate demand or expenditure (*AE*)	Income from people in jobs and self-employment)wages & salaries) plus profits of private sector businesses plus rent income from land ownership.

Conceptually, all 3 methods should produce the same GDP result. However, for the purposes of this Bulletin, it is the GDP(E) or expenditure approach in which we are most interested.

Keynes and his General Theory

In 1936, in the aftermath of the Great Depression, John Maynard Keynes published his most celebrated work – *The General Theory of Employment, Interest, and Money*. Keynes contended that the major flaw in Classical economics was its assumption that supply automatically creates its own demand:[5]

> The idea that we can safely neglect the aggregate demand function is fundamental to the Ricardian economics, which underlie what we have been taught for more than a century.
>
> …….
>
> It may well be that classical theory represents the way in which we should like our Economy to behave. But to assume that it actually does so is to assume our difficulties away.[6]

In Chapter 3 'The Principle of Effective Demand', Keynes laid out the crucial role of the aggregate demand function and the potential for 'effective demand failure', which leads to an equilibrium level of GDP that is well below its full employment level – implying that the cause of the Great Depression was that one or all of $C + I + G + NX$ were too low. At the same time, this analysis of the problem presented a solution:

> By increasing *G*, governments would create a positive multiplier effect, shift aggregate spending upwards, and lead to GDP being restored to its full employment or potential level. Thus, the Keynesian revolution suggested an active role for fiscal policy in helping to stabilize the economy and a promise that mass unemployment could be a thing of the past.[7]

The effect of a change in Government spending

The key premise underlying the Keynesian stimulus approach to combating an economic recession is demonstrated in Figure 1.

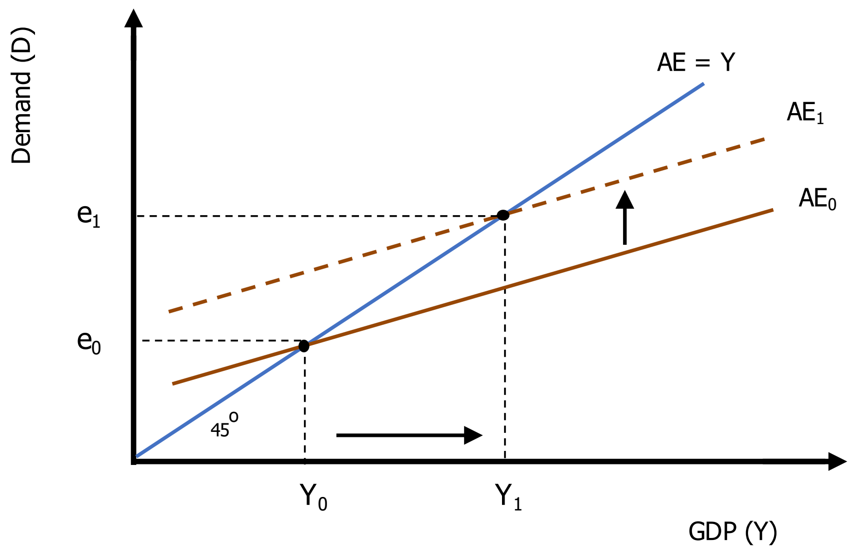
Following Lipsey and Chrystal (2007), a change in government spending changes GDP by shifting the aggregate expenditure line parallel to its initial position.

At each level of GDP (Y) on the horizontal axis, there is a level of demand (D) from consumers (C), business investment (I) and government purchase of good and services (G), which together add up to aggregate demand (AE).

Let's assume that after a recession the level of aggregate spending or demand is AE_0 and the equilibrium level of GDP is Y_0. As a stimulus response, an increase in government spending (G) alone can shift aggregate expenditure upwards to AE_1 causing GDP to increase from Y_0 to Y_1. The increase in GDP is equal to the increase in government spending times the fiscal multiplier.

A reduction in government spending has the reverse effect, shifting the AE line down and causing GDP to decline by an amount equal to the reduction in government spending times the fiscal multiplier.

Figure 1: Effect of a change in Government spending



What is the fiscal multiplier and why is it important?

Fiscal multipliers are defined as the ratio of a change in GDP to a discretionary change in government spending or tax revenue. The fiscal multiplier therefore measures the effect of a $1 change in government spending or a $1 change in tax revenue on the level of GDP.

The size (and persistence) of multipliers have a critical bearing on the magnitude of the impact of any change in government spending. There are a range of factors that determine the size, including:

- Structural factors – trade openness (the more open, the lower the multiplier), labour market rigidity (the more rigid, the higher the multiplier) and debt level (high debt countries have lower multipliers).
- Temporary factors – state of the business cycle (larger multipliers during downturns) and state of monetary policy (multipliers can be larger when the use of monetary policy is constrained).

The International Monetary Fund (IMF) reports first year multipliers in 'normal' circumstances between 0 and 1, averaging 0.75 for government spending and 0.25 for government revenues, and even lower when the economy is expanding.[8] In 'abnormal' times multipliers can exceed 1—in particular when the economy is in a severe downturn or if the use and/or the transmission of monetary policy are impaired. The IMF reports estimates from the economic literature of multipliers as high as 2.25 during a recession.

The reason for the large difference in multiplier size depending on where you are in your business cycle is that stimulus is less effective in an expansion, because, at full capacity, an increase in public demand crowds out private demand, leaving output unchanged (with higher prices).

Stimulus versus austerity–what's the recent evidence?

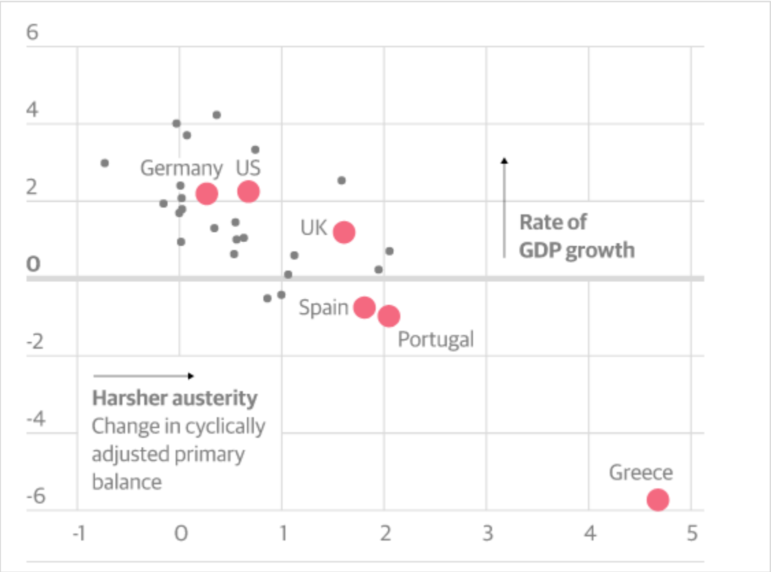
Advanced countries

In response to the 2008 global financial crisis, developed economy governments implemented large fiscal stimuli in order to counteract the effects of recession and boost demand. This included the United States Federal Government's *American Recovery and Reinvestment Act 2009* and the European Economic Recovery Plan by the European Union governments. However, although many economies remained depressed, from 2010 many governments turned to austerity for fear of becoming another Greece, ignoring Keynes's advice that:

> The boom, not the slump, is the right time for austerity at the Treasury.[9]

Krugman (2015), writing for The Guardian, presented IMF data in Figure 2, charting average annual change in the cyclically adjusted primary surplus (a common measure of austerity) on the horizontal axis against the annual GDP growth rate on the vertical.

Figure 2: Austerity and economic growth 2009–13



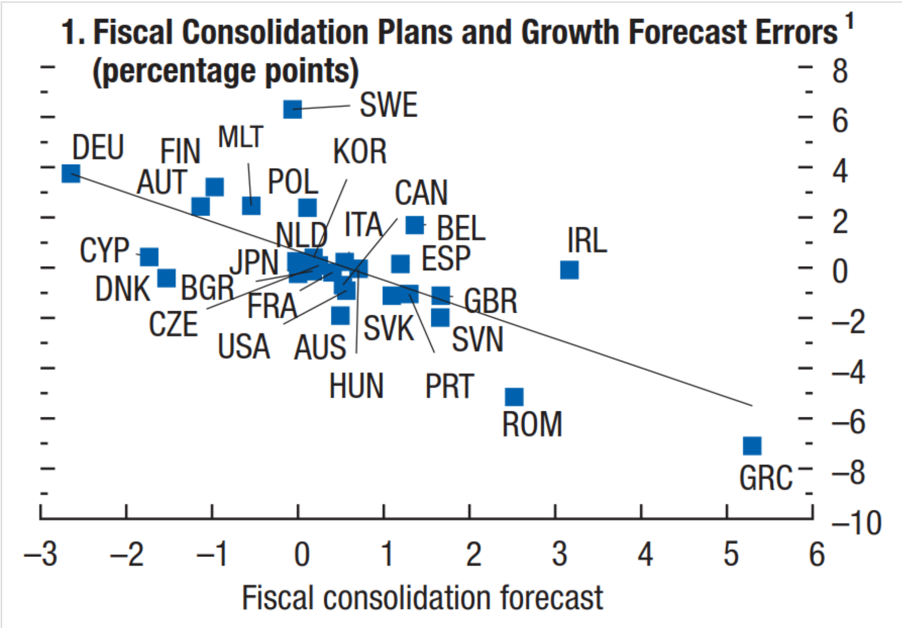
Krugman concludes that every country that introduced significant austerity has seen its economy suffer, with the depth of the suffering closely related to the harshness of the austerity.

While some may argue that this evidence doesn't demonstrate causality, in 2012 the IMF, a veritable champion of austerity, admitted much the same thing. In its 2012 World Economic Outlook, the IMF's chief economist explained that recent efforts among wealthy countries to shrink their deficits—through tax hikes and spending cuts—have been causing far more economic damage than experts had assumed.[10]

While not straight out admitting that austerity had been a failure, noting only that 'activity has disappointed in a number of economies undertaking fiscal consolidation', the IMF found that the multipliers they had been using to forecast economic growth in these countries were too low. That is, they had underestimated the contractionary impact of the austerity measures.

To support this finding, the IMF presented a graph of their growth projection forecast errors against fiscal consolidation plans, as shown in Figure 3.

Figure 3: IMF growth forecast errors and austerity plans



This implied that the tax hikes and spending cuts have been doing more damage to those economies than policymakers expected. Conversely, countries that engaged in stimulus, such as Germany and Austria, did better than expected.

Jayadev and Konczal (2010), examining European economic data post the 2008 global financial crisis, conclude that:

> When countries cut in a slump, it often results in lower growth and/or higher debt-to-GDP ratios. In very few circumstances are countries able to successfully cut during a slump, and this happens only when either interest rates and/or the exchange rates fall sharply.[11]

Australian experience

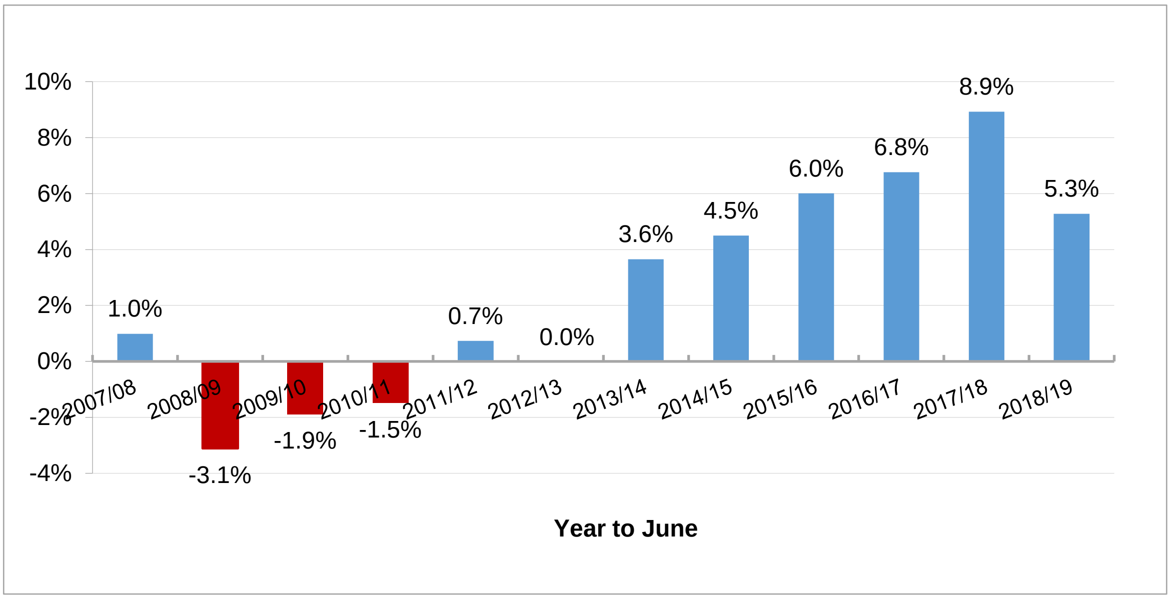
Closer to home, the Australian Government also implemented a fiscal stimulus package in 2008/09, valued at over 4 per cent of GDP, one of the largest in the developed world. The Australian package had a stronger focus on spending rather than tax measures, mainly comprising transfers to households and expenditure on public works.

Makin (2010), assessing the impact using National Accounts data, found that net foreign demand (as reflected in quarterly changes in exports and imports), not federal fiscal stimulus, was primarily responsible for countering the GFC-induced economic slowdown over the December 2008 and March 2009 quarters.[12] However, Li and Spencer (2014) modelled the effectiveness of the Australian fiscal stimulus package, finding that the stimulus transfers were effective in combating the economic downturn caused by the global financial crisis.[13]

Cook Islands

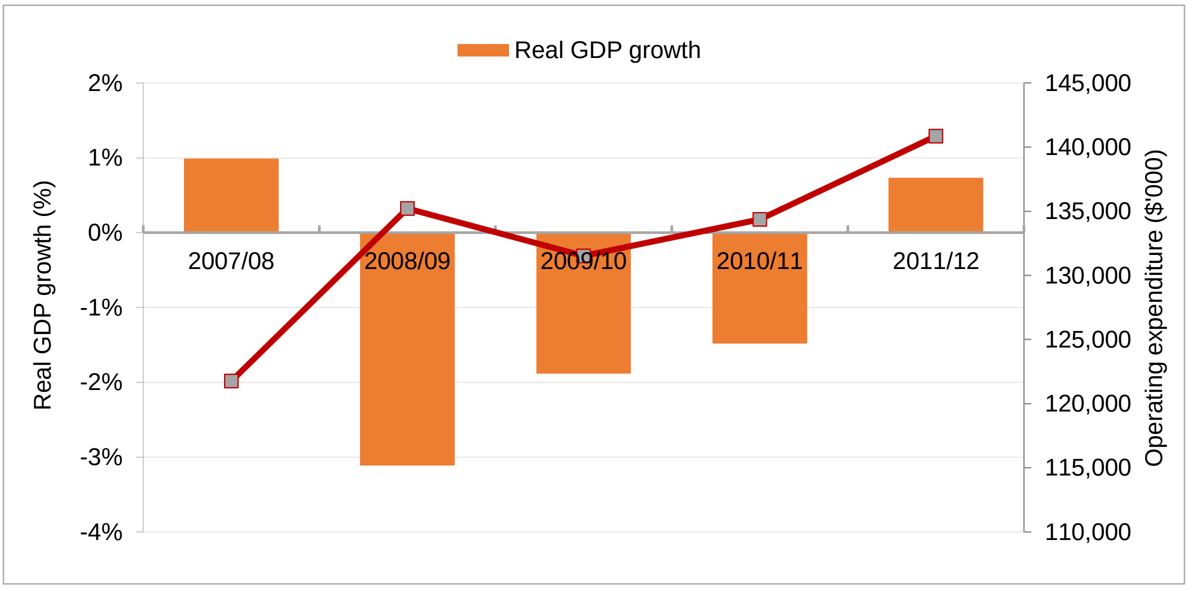
The 2008 global financial crisis had a sobering effect on the Cook Islands economy. Figure 4 shows that the Cook Islands experienced 3 years of recession following the crisis, with growth only re-entering stable positive territory in 2013/14.

Figure 4: Real GDP growth (percentage change)



If we then examine annual Government expenditure in the aftermath of the crisis, from 2009/10 onwards, increasing Government expenditure follows an increasing trend in GDP, although we cannot infer any causation here.

Figure 5: Real GDP growth and Government operating expenditure



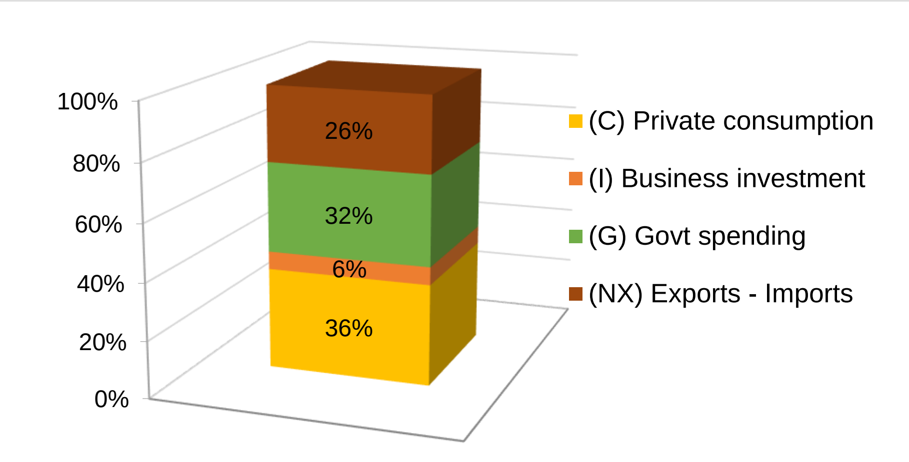
Government expenditure and the Cook Islands economy

Before moving on to discuss the Government's medium-term response to combat the COVID-19 recession, and the financing decisions to support that response, there is value in first reflecting on the significance of the government sector to the Cook Islands economy.

As is common in small island states, the government sector makes up a large portion of the economy. From the expenditure side, GDP(E) estimates suggest that Government expenditure, operating and capital (*G*), accounted for nearly **one third** of total expenditure in the economy in 2018.

A large portion of this Government expenditure comes in the form of salaries paid to public sector employees. Latest estimates show that the public sector workforce, at just under 2,000 employees, makes up about a **quarter** of the Cook Islands total labour force. A large proportion these salaries flow directly back into the economy, supporting the private sector through the purchase of household goods and services.

Figure 6: Share of GDP(E)



As such a large economic player, there are many families in the Cook Islands that benefit in some way from a Government income. Moreover, many extended families, particularly in the Pa Enua where Government employees make up a much larger proportion of the workforce, rely on one or two family members working in the public sector.

Informing the medium-term budget decisions for the Cook Islands

To continue stimulating or to not …

We now return to question posed at the beginning of this Bulletin: do we continue to respond with temporary fiscal stimulus measures, knowing that additional borrowing will lead to increasing budget deficits? Or do we go down the austerity route?

It will come as no surprise to astute readers to find that the Ministry of Finance and Economic Management (MFEM) supports in-principle the Keynesian counter-cyclical fiscal stimulus approach. Indeed, the Medium-term Fiscal Strategy 2019/20–22/23 launched in December 2018 is specifically designed to ensure growth in Government expenditures run counter to the business cycle.[14] Sidelsky (2015) puts the case succinctly:

> Any Keynesian knows that cutting the deficit in a slump is bad policy. A slump, after all, is defined by a deficiency in total spending. To try to cure it by spending less is like trying to cure a sick person by bleeding.
>
> …….
>
> The moral of the tale is simple: Austerity in a slump does not work, for the reason that the medieval cure of bleeding a patient never worked: it enfeebles instead of strengthening.[15]

While our support for the principle behind stimulus is clear, before proceeding we need to turn our attention to two practical, yet critical, questions.

The first is what scale of additional temporary stimulus we think might be required to tiptoe the Cook Islands economy through the worst of the economic downdraft. The second, is how we plan to finance this additional expenditure, and what impact will it have on the Government's balance sheet over the medium-term.

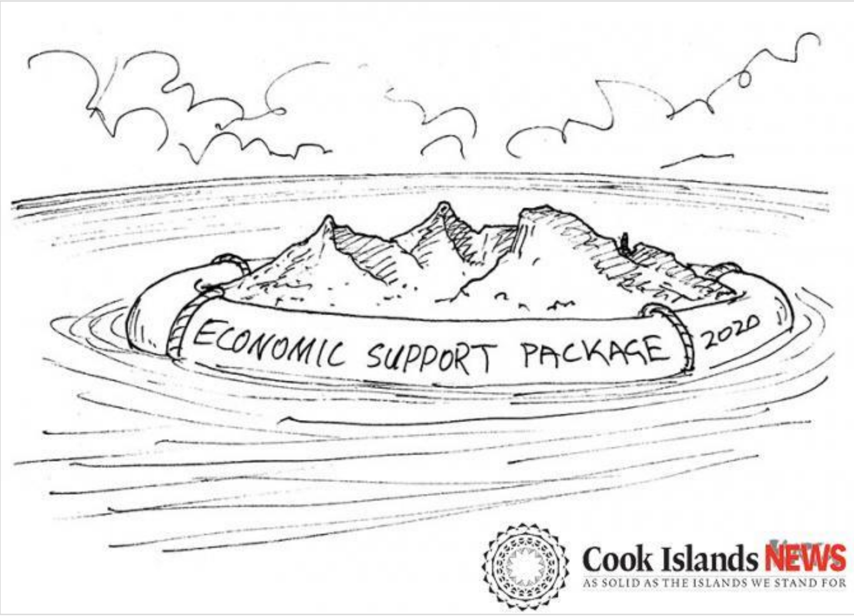
What magnitude of additional stimulus might we need?

Introduction

Before addressing the question of scale, it is worth reminding ourselves of the objectives of the Government's Economic Response Plan:

- stimulate demand through support to local business to ensure that the economy is able to continue to operate, even at a reduced level;
- support the livelihoods of those that are likely to be most affected by the economic fallout; and
- to achieve the first two objectives in a fiscally responsible manner that does not undermine the Government's ability to undertake further fiscal intervention over the longer-term.

The critical point with regard to the scale is that the stimulus measures cannot, and are not intended to, completely fill the economic gap left by the vanishing tourist industry. The aim rather is to keep the Cook Islands economy afloat–ticking over if you like–until the pandemic passes and the economy starts to return to normal. The Cook Islands News' cartoonist aptly captured the support package as a lifebelt for the Cook Islands.



We also recognise that decisions are being made under much uncertainty: when the immediate pandemic and global movement restrictions will end, when the global economy might start to recover, and when our major tourism markets will start to send visitors to our shores again.

The private sector also faces uncertainty in this time, with an understandable reluctance to take on additional debt to stimulate activity. The onus is therefore on Government to step in to fill some of the gap in aggregate demand.

Stimulus size and economic impact

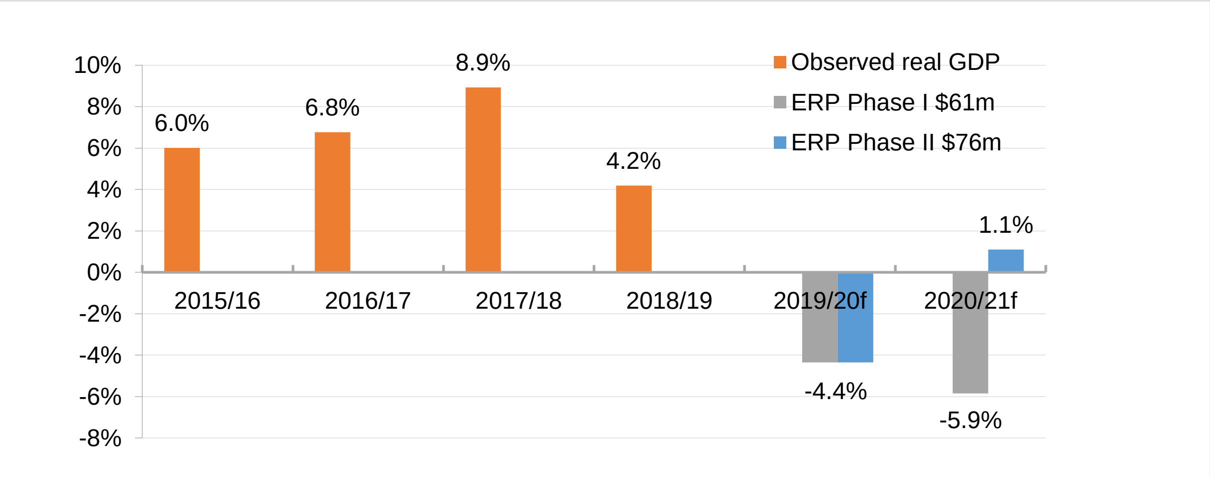
The first phase of the Economic Response Plan announced in March 2020, contains stimulus measures with a total value of $61 million, not all of which require a budget appropriation (see Table 1). This includes the direct cost to Government that will be appropriated across the Supplementary Budget 2019/20 and the 2020/21 Budget, respectively. It also includes the indirect cost to Government for measures such as the electricity subsidy (covered by Te Aponga Uira and Te Mana Uira O Araura), Cook Islands National Superannuation Fund contribution reductions and tax relief measures.

Table 3: Estimated cost of Phase 1 of the Economic Response Plan

Measure	Government 2019/20	Government 2020/21	External party 2019/20 & 2020/21
Ministry of Health	$5,000,000		
Self-isolation	$2,298,825		
Small capital works program	$2,000,000		
Major capital projects		$12,000,000	
Unemployment benefit	$972,111		
Wage Subsidy	$19,152,000	$3,360,000	
Child benefit payment	$1,002,200		
One-off welfare payment	$870,000		
Redeployment Program	$50,000		
Business Grants	$3,362,000		
Indirect costs (tax relief, TAU etc.)			$9,000,000
Total	**$34,707,136**	**$15,360,000**	**$9,000,000**

MFEM's revised forecasts presented in the Supplementary Budget 2019/20 and reported in the introduction to this Bulletin, factored in the impact of ERP Phase I, assuming a multiplier of 1 (which may be on the low side given that any capacity constraints we had last quarter are likely to rapidly disappear). This level of stimulus helps limit the economic damage in 2019/20 but is insufficient to prevent further economic decline in 2020/21.

Figure 7: Real GDP growth forecasts – ERP Phase I & II



This is where ERP Phase II could play an important role. Based on current information, MFEM estimates that an additional $76 million stimulus package rolled out in the 2020/21 Budget will help stabilise the economy in 2020/21 with a more respectable 1.1 per cent growth rate, a big improvement on the -5.9 per cent if we stick to Phase I only.

Financing the Plan

The first part of ERP Phase I has been appropriated in the Supplementary Budget 2019/20, with a direct budget impact of about **$35 million** in 2019/20 and **$3.4 million** in 2020/21. The Stabilisation Account was employed, along with drawing down on general cash reserves to fund the stimulus and other non-COVID-19 supplementary expenditures.

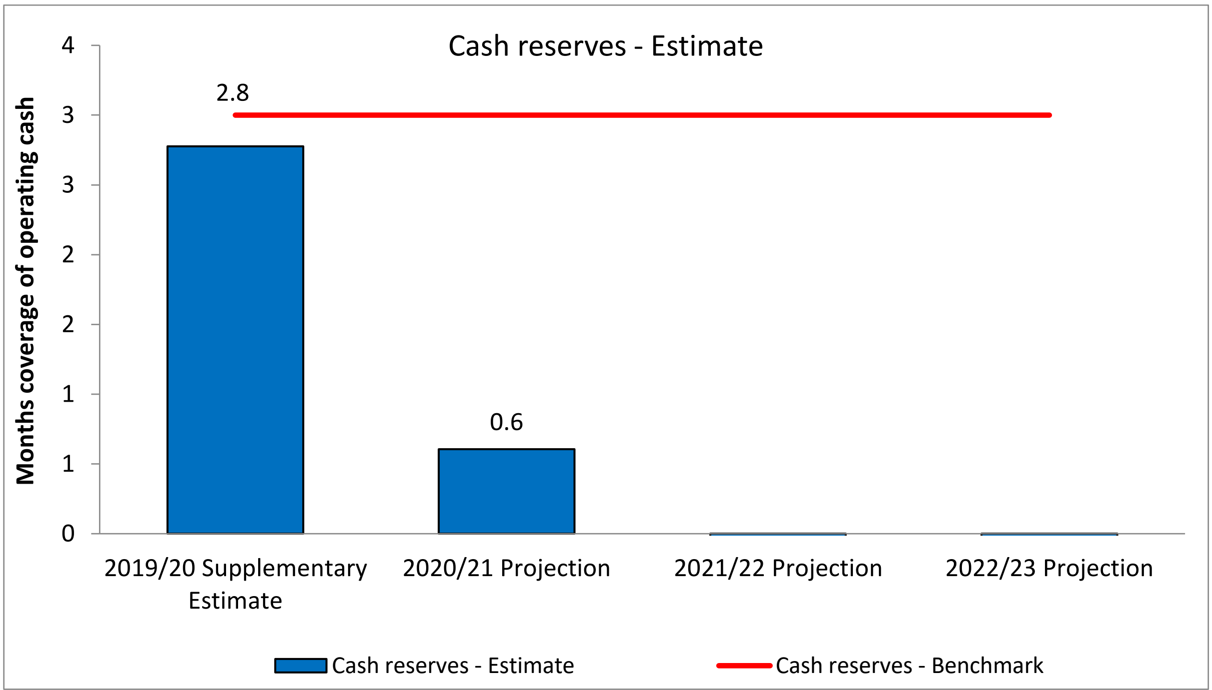
In the 2020/21 Budget in June, we will need to appropriate the balance of about **$12 million**, as well as considering additional appropriation of up to **$76 million** for Phase II, a total of about **$88 million**.

There are three ways to finance the additional stimulus in the forthcoming Budget. The first is to use spare cash, the second is to use grant funding from our donor partners and the third option is to take on additional debt.

Cash

Let's start with cash. In the Supplementary Budget we estimated a cash reserve of $44 million at the end of 2019/20, falling to $8 million in 2020/21 and zero thereafter, all in breach of fiscal rule threshold of 3 months of operating budget cover (see Figure 8). The Government therefore has insufficient cash reserves to undertake the next stage of stimulus funding unless there is a significant under-expenditure before the end of the 2019/20 fiscal year, or higher revenues than forecast. This cannot be accurately estimated at present.

Figure 8: Cash Reserves Projections



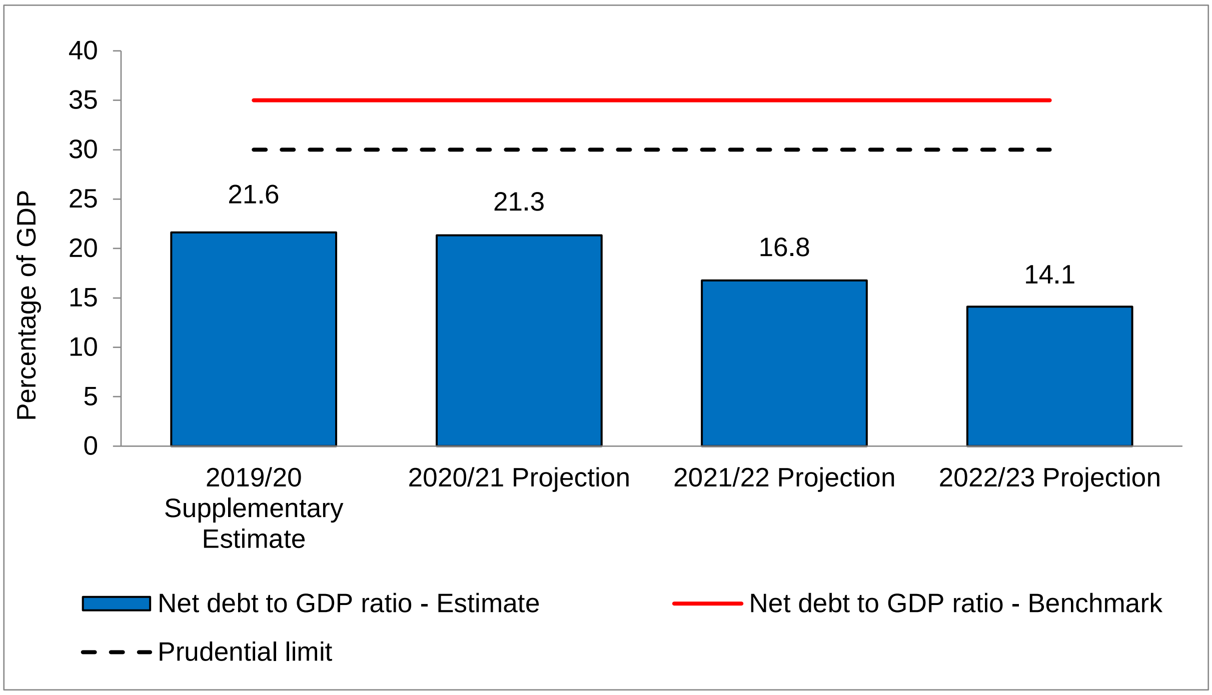
Grant funding

Moving on to donor grants, we are fortunate in the support from New Zealand, our strongest, longest and closest partner. The New Zealand Government has provided **$7 million** towards the Cook Islands Covid-19 response as general budget support, this contributed to Phase I of the ERP. The New Zealand Government also previously provided the Cook Islands with $12 million of funding, for an Infrastructure Trust Fund. This may be drawn upon if both governments agree to a large capital project. There may also be the potential for additional grant funding from the Asian Development Bank, and other international partners, such as the United Nations, who are running both loan and aid grant schemes in response to the COVID-19 pandemic.

Additional debt

This brings us to debt. The strong economic growth of the past few years has left us with good debt headroom, which means the Cook Islands has the ability to borrow more and be able to repay that debt. In the Supplementary Budget we estimated a net debt to GDP ratio of 21.6 per cent in 2019/20, falling to 21.3 per cent in 2020/21 (see Figure 9), comfortably within the 30 per cent soft threshold.

Figure 9: Net Debt Projections



We have maximum additional headroom of about $65 million of debt, which would take us close to our hard threshold of 35 per cent of GDP in 2020/21. Assuming $12 million from the Infrastructure Trust Fund, this would still mean that the Cook Islands Government would be required to find $11 million of additional financing, or extra cash reserves to undertake the full stimulus.

The measures and funding arrangements for ERP Phase II will be developed and refined as part of the 2020/21 Budget process.

Potential measures to be utilised in Phase II of the ERP

As Phase I of the ERP is rolling out, the Cook Islands Government has turned its mind to the key measures required in ERP Phase II to ensure continued support for employers and individuals to get through this crisis. It is now clear that the economy has moved to what can be classified in the ERP as a Stage 3 situation, where economic growth is expected to be below -1 per cent. As such, the Government will focus its attention on supporting increased investment to help foster growth in the absence of tourism.

This will involve changes to the Government’s capital investment program to provide support to the economy of the Cook Islands, while also building important infrastructure, which will ultimately improve our productivity. These measures may involve bringing forward particular projects, to increase aggregate demand and to keep employment levels as high as possible.

Linked to this, one pillar of the support will be to work with the Cook Islands commercial banks to ensure that businesses in the Cook Islands have access to affordable credit, to assist them through this period. In addition, while a training subsidy has been outlined in Phase I, additional educational and training support measures will likely be introduced to ensure that Phase I can roll out effectively, and to ensure that we are able to upskill our people so that they are best placed to take advantage of economic opportunities as they arise post-COVID.

Finally, as the welfare of the residents of the Cook Islands is paramount to the ERP, the rollout of Phase I is being closely monitored, which will allow an extension, and/or adjustments to these measures in Phase II if deemed necessary.

To assist in the design and development of Phase II, MFEM is establishing an Economic Response Virtual Think Tank, comprising a locally based and international expert team of economists supported by policy experts.

In the medium-term, after travel restrictions are lifted and the threat of Covid-19 is reduced, the focus will turn to expanding the economy and winding down the direct support mechanisms when they are no longer needed. This transition will be key to moving the economy back to a 'normal' footing once start welcoming tourists back to our shores.

Conclusion

The Cook Islands faces an unprecedented economic shock from the COVID-19 pandemic and its impact on the tourism market. However, by employing a sufficiently large support and stimulus package such as the ERP, the worst impacts of this downturn can be alleviated. This will be a tough period, but this package is designed to assist in softening the harshest aspects of the blows our economy has been dealt and providing our people with a platform to lead the economic recovery once the danger and restrictions have passed.

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