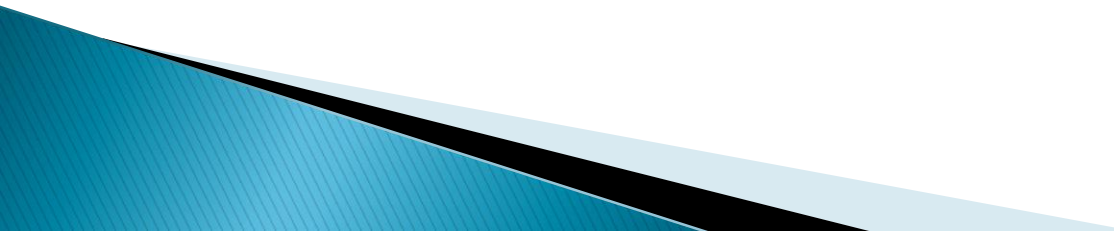


Budget and Economic Presentation



Half Year Fiscal and Economic Update
2013/14

Overview

- ▶ Purpose of National Budget Process
 - ▶ Pre-Election Update
 - ▶ Fiscal Setting
 - Changes to Revenue
 - Changes to Expenditure
 - Underlying Budget Balance
 - ▶ Economic Update
 - ▶ Capital
 - ▶ ODA
- 

Budget Process

▶ Purpose

- To allocate limited public resources to achieve the government's intentions (*refer to Budget Policy Statement*).

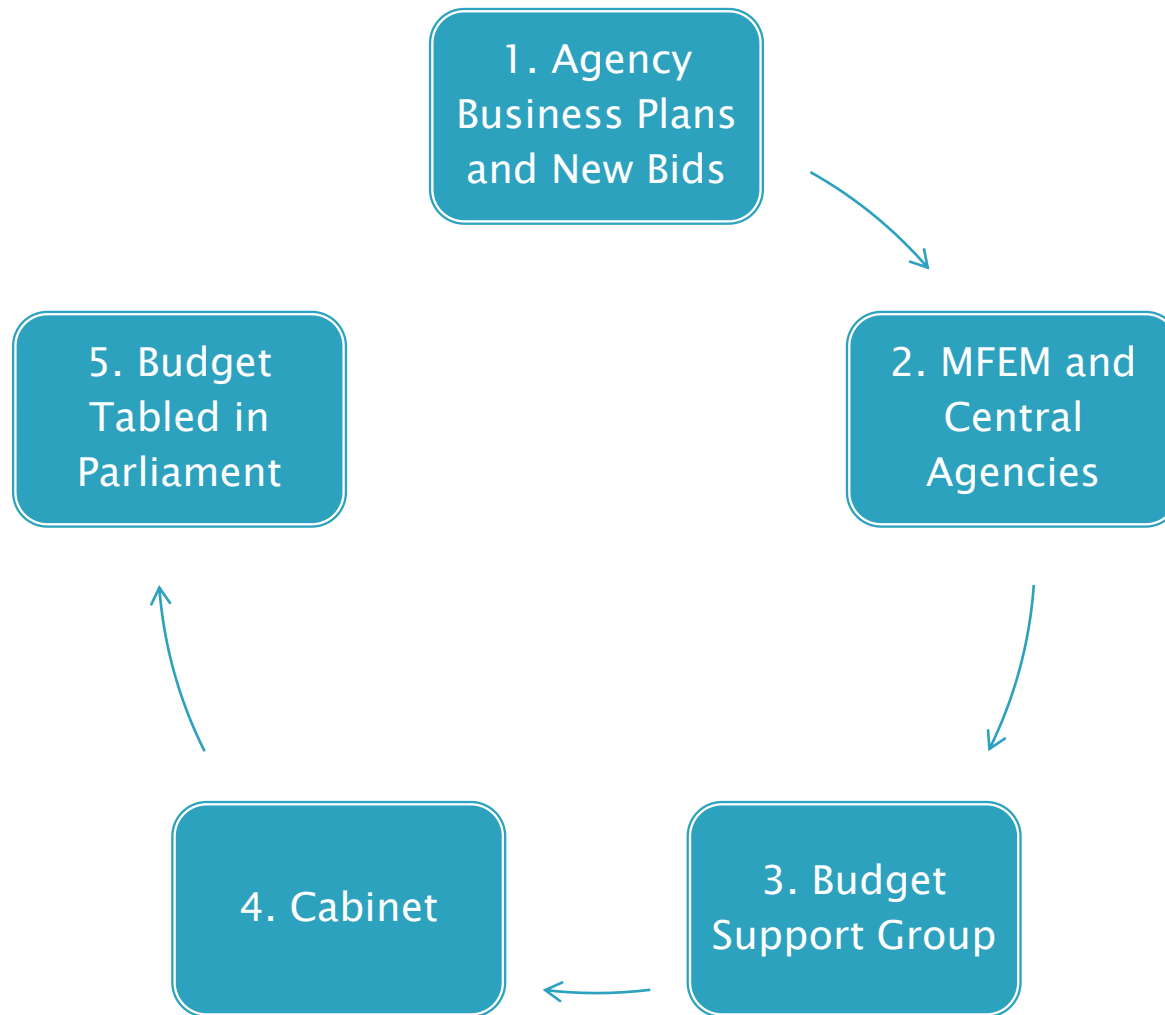
▶ Three Phases:

1. Governments' Statement of Intent – Budget Policy Statement (BPS)
2. Resource allocation process– Budget Support Group/Cabinet
3. Approval process– Parliament

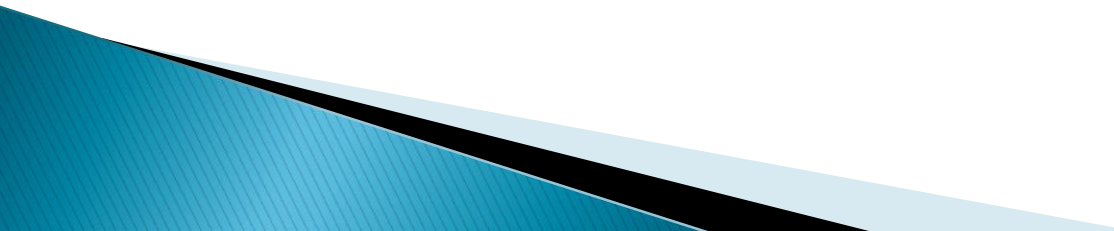
▶ Stakeholders:

- Budget Support Group, HOM's, Finance Managers, Portfolio Ministers, Cabinet, Parliament, Ministries, General Public

Budget Process



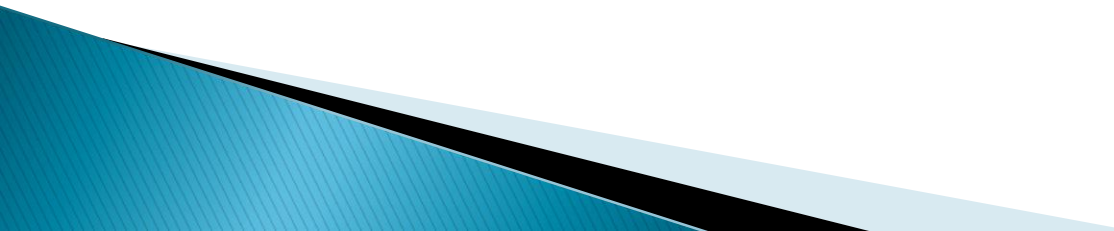
Pre-Election Update

- ▶ Section 17 of the MFEM Act requires that within 14 days [by 30 April 2014], the Minister shall prepare a report containing an economic and fiscal update
 - ▶ Purpose is to provide the general public information on the state of the economy and governments associated fiscal position.
- 

Executive Council Approval

- ▶ Issue around no 2013/14 Supplementary Budget or 2014/15 Budget being passed
- Article 70 (3) (b) of the Cook Islands Constitution outlines that all sums issued and paid shall not exceed 1½ per cent of the appropriation to be spent in excess.
- The total appropriation for 2013/14 was \$197m. The overspend should not exceed \$2.94 million.
- ▶ The Pre-election update includes various expenditure and revenue adjustments approved by the Executive council.

Fiscal Setting

- ▶ The 2013/14 Budget was developed under tight fiscal circumstances, resulting in a \$0.046m surplus
 - ▶ The estimate of the underlying operating balance at time of Half Year Economic and Fiscal Update (HYEFU) December 2013 worsened to -\$1.9m, due to the phasing of the tax reform package
 - ▶ The 2013/14 Pre-election Update has now revised the net underlying operating position to an improved \$0.112m deficit.
- 

Fiscal Setting

Statement of Government Operations	2013/14 Forecasts	2014/15 Forecasts	2015/16 Forecasts	2016/17 Forecasts
Net Underlying Operating balance Budget 2013/14 June 2013	46	-1,068	606	606
Revenue Parameter Changes	-180	216	-1,074	4,097
Revenue Decisions	-512	2,726	2,726	2,726
Expenditure Parameter Changes	0	0	0	0
Expenditure Decisions	868	2,603	2,603	2,603
Net Underlying Operating balance Budget BPS & HYFEU December 2013	-1,514	-730	-346	4,825
Revenue Parameter Changes	-641	827	-283	-38
Revenue Decisions	876	-381	-385	-385
Expenditure Parameter Changes	0	0	0	0
Expenditure Decisions	1,587	455	455	455
Expenditure Savings	-2,753	0	0	0
Current Net Underlying Operating balance Budget 2013/14	-112	-739	-1,468	3,948

2014/15 Budget

- ▶ The development of the 2014/15 Budget will need to be undertaken in a tight fiscal environment
 - limited fiscal space for new initiatives without the inclusion of revenue or savings measures (to offset any intentions of increased spending)
 - Competing policy objectives will require prioritisation
 - The growing cost of the public service is concerning and future policy measures will be required to reduce growth and extract greater productivities in this area.

Changes to Revenue

- Overall changes to revenue since the publication of the 2013/14 HYEFU have seen an increase in revenue from \$117.8 million to \$118.4 million, an increase of \$0.6 million;

Statement of Government Operations	2013/14 Forecasts	2014/15 Forecasts	2015/16 Forecasts	2016/17 Forecasts
Net Underlying Operating balance Budget 2013/14 June 2013	46	-1,068	606	606
Revenue Parameter Changes	-180	216	-1,074	4,097
Revenue Decisions	-512	2,726	2,726	2,726
Revenue Changes at BPS and HYFUE	-692	2,941	1,652	6,822
Revenue Parameter Changes	-641	827	-283	-38
Revenue Decisions	876	-381	-385	-385
Total Revenue Changes from BPS and HYFUE	-457	3,387	984	6,400

Changes to Revenue

- ▶ This is predominantly due to the sale of additional 400 days catch revenue to the US under the Fisheries Treaty. Offsetting this were reductions in estimated revenue from Big Eye Tuna quota with the EU.

Statement of Government Operations	2013/14 Forecasts	2014/15 Forecasts	2015/16 Forecasts	2016/17 Forecasts
Revenue Decisions	876	-381	-385	-385
<i>Fisheries Catch Revenue</i>				
Catch Revenue additional 300 days increase - USA	1,900	0	0	0
Catch Revenue additional 100 days increase - USA	600			
EU Partnerships - Big Eye Tuna Quota	-700	0	0	0
Reduction in Purseine Revenue	-230	0	0	0
<i>Fishing Licences Revenue</i>				
Increase in Albacore Tuna Licence Fees	442	0	0	0
Reduction in Big Eye Tuna Licenses	-800	0	0	0

Revenue continue....

- ▶ Other increases in revenue include increased dividend from Bank of Cook Islands of \$0.070 million which was a result of improved profit performance.
- ▶ Other adjustments to revenue include the reduction in immigration fees by \$0.330 million as the new proposed fee structure was not implemented as proposed at the time of the 2013/14 Budget.

Statement of Government Operations	2013/14 Forecasts	2014/15 Forecasts	2015/16 Forecasts	2016/17 Forecasts
Revenue Parameter Changes	-641	827	-283	-38
IMO Subscription-MCI	63	63	63	63
Shipping Registration	22	22	22	22
Court Services	10	10	10	10
Circulating Currency	50	0	0	0
Bank of the Cook Islands - dividend	70	0	0	0
Tourism	254	200	200	200
Apostiles	12	12	12	12

Revenue continue....

- ▶ Movements in taxation resulted in a reduction to reflect year to date actual, predominantly driven by import levies which have been revised down by \$2.8 million in 2013/14.

Statement of Government Operations	2013/14	2014/15	2015/16	2016/17
	Forecasts	Forecasts	Forecasts	Forecasts
Revenue Parameter Changes	-180	216	-1,074	3,655
VAT Adjustments	465	658	721	192
Income Adjustments	213	126	431	240
Import Levies Adjustments	-2,844	-934	-2,456	-1,340
Company Tax Adjustments	-301	-84	42	-37
Departure Tax Adjustments	838	754	672	601
Withholding Adjustments	508	0	0	0

Changes to Expenditure

- ▶ Operating expenditure is now estimated to be \$118.5 million for 2013/14
- ▶ This is a \$1.2 million reduction from the \$119.8 million estimated at the time of the Budget Policy Statement in December 2013

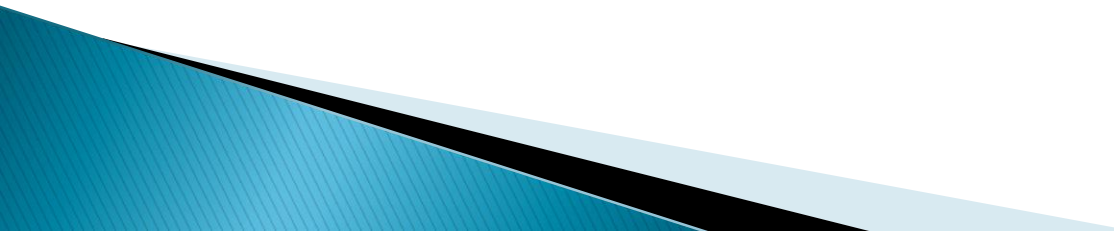
Expenditure Initiatives – Welfare Adjustments (Tax Review)

Statement of Government Operations	2013/14	2014/15	2015/16	2016/17
	Forecasts	Forecasts	Forecasts	Forecasts
Expenditure Decisions	1,587	455	455	455
Tax Review Welfare Payments	868	2,603	2,603	2,603
Increase 60-69 pension by 25%	404	1,212	1,212	1,212
Increase 70+ by 25%	345	1,035	1,035	1,035
Increase child benefit by 10%	86	258	258	258
Increase destitute by 10%	13	40	40	40
Increase Caregivers by 10%	17	50	50	50
Increase Power Subsidy by 10%	3	9	9	9

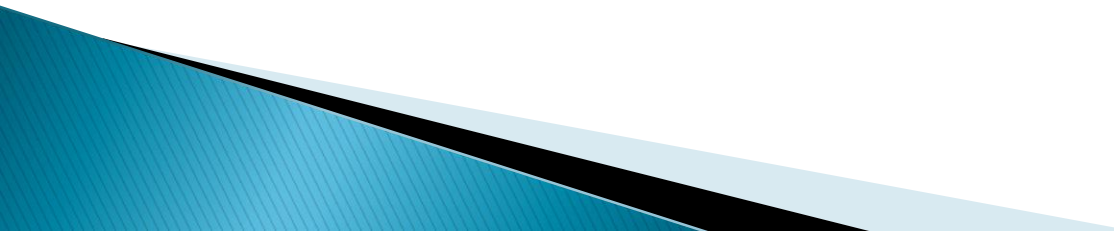
Expenditure Initiatives – Contingency Adjustments

Statement of Government Operations	2013/14	2014/15	2015/16	2016/17
	Forecasts	Forecasts	Forecasts	Forecasts
Expenditure Decisions	1,587	455	455	455
Contingency Expenditure Decisions	280	0	0	0
Murienua by-election	10	0	0	0
Oriental Fruit Fly Eradication	30	0	0	0
Superannuation Fund – Constitutional Challenge Legal Costs	110	0	0	0
Boat Repairs Manihiki Indian Grant Co Financing	30	0	0	0
Additional Costs Associated with the Gender Conference	11	0	0	0
Donation to Investiture of Tinomana Tokerau Ariki	1	0	0	0
Legal advice– Superannuation Constitution	62	0	0	0
Rakahanga Fuel Costs	18	0	0	0
Increase Contingency Crown	0	0	0	0
Seabed Minerals–Legal Fees	8	0	0	0

Expenditure Initiatives – Education and Health

- ▶ \$0.297 million for operations following fire damage at Avatea Primary School and Nukutere College;
 - ▶ \$0.060 million increase to the Patient Referrals POBOC
- 

Expenditure Initiatives – Conferences / Meetings

- ▶ \$0.035 million to assist the hosting of the Pacific Leaders Meeting in mid May;
 - ▶ \$0.010 million for the Working Group UN Membership;
 - ▶ Additional expenditure of \$0.015 for the running of the Police Women's Conference in Rarotonga;
- 

Expenditure Initiatives – Sporting

- ▶ \$0.060 million to assist Cook Islands Netball to run the Trans Pacific Netball series;
- ▶ \$0.060 million to CISNOC to reimburse the funds used for the Rugby League World Cup and \$0.018 Netball in Paradise event; and

Expenditure Initiatives – General Elections

- ▶ Additional expenditure of \$0.160 million for General Elections to be held 9th July 2014;

Other Expenditure Initiatives – Ongoing

Statement of Government Operations	2013/14	2014/15	2015/16	2016/17
	Forecasts	Forecasts	Forecasts	Forecasts
Expenditure Decisions	1,587	455	455	455
Pacific Catastrophe Risk Insurance	121	121	121	121
Infrastructure Committee	25	25	25	25
IMO POBOC	63	63	63	63
Remuneration for Clerk of HOA	46	46	46	46
Tourism	254	200	200	200
Government Ownership of TCI policy development	25	0	0	0
Natural Disaster top up	0	0	0	0
Debt Servicing Interest	8	0	0	0
Airport Authority	50	0	0	0

Expenditure Savings

- ▶ Total one-off Savings of \$2.8 million in 2013/14 consisting of:

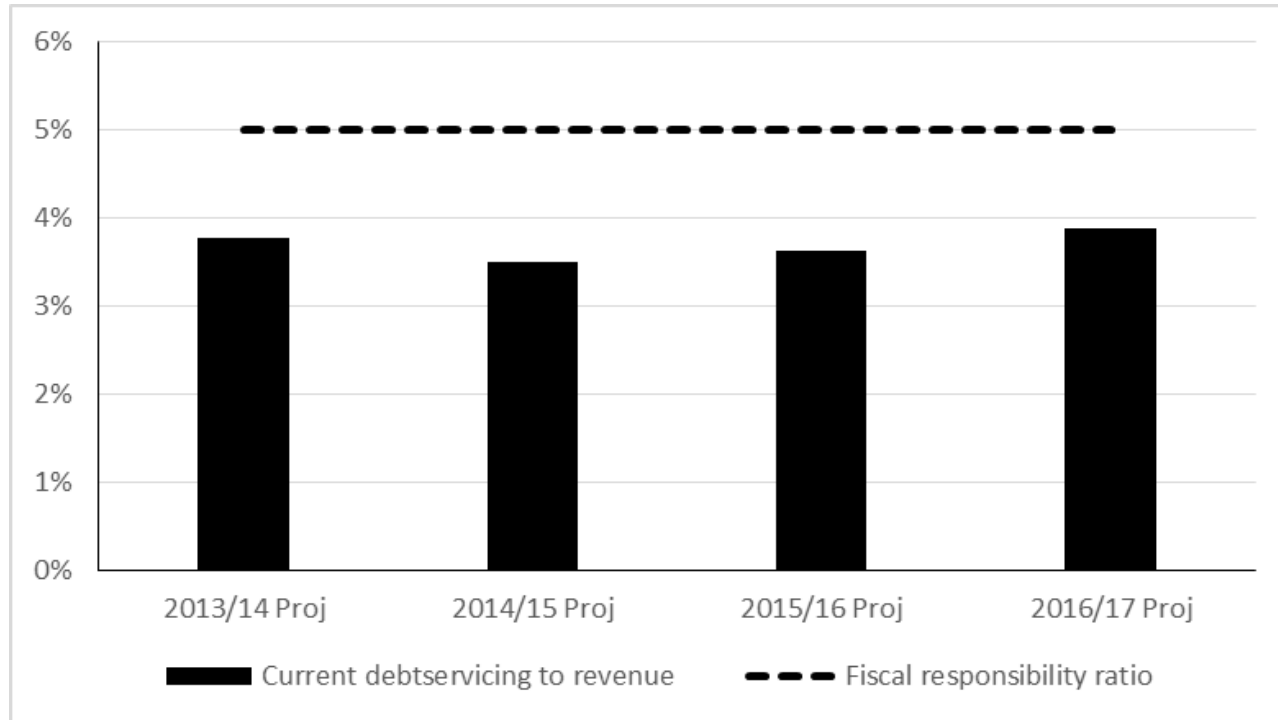
Statement of Government Operations	2013/14	2014/15	2015/16	2016/17
	Forecasts	Forecasts	Forecasts	Forecasts
Expenditure Savings	(2,753)	0	0	0
Air New Zealand POBOC	(1,450)	0	0	0
SOPAC Conference Savings	(50)	0	0	0
Police Conference Savings	(6)	0	0	0
Standard and Poors	(1)	0	0	0
Personnel Savings	(136)			
Ports Authority non programmed capital	(1,110)	0	0	0

Government Debt

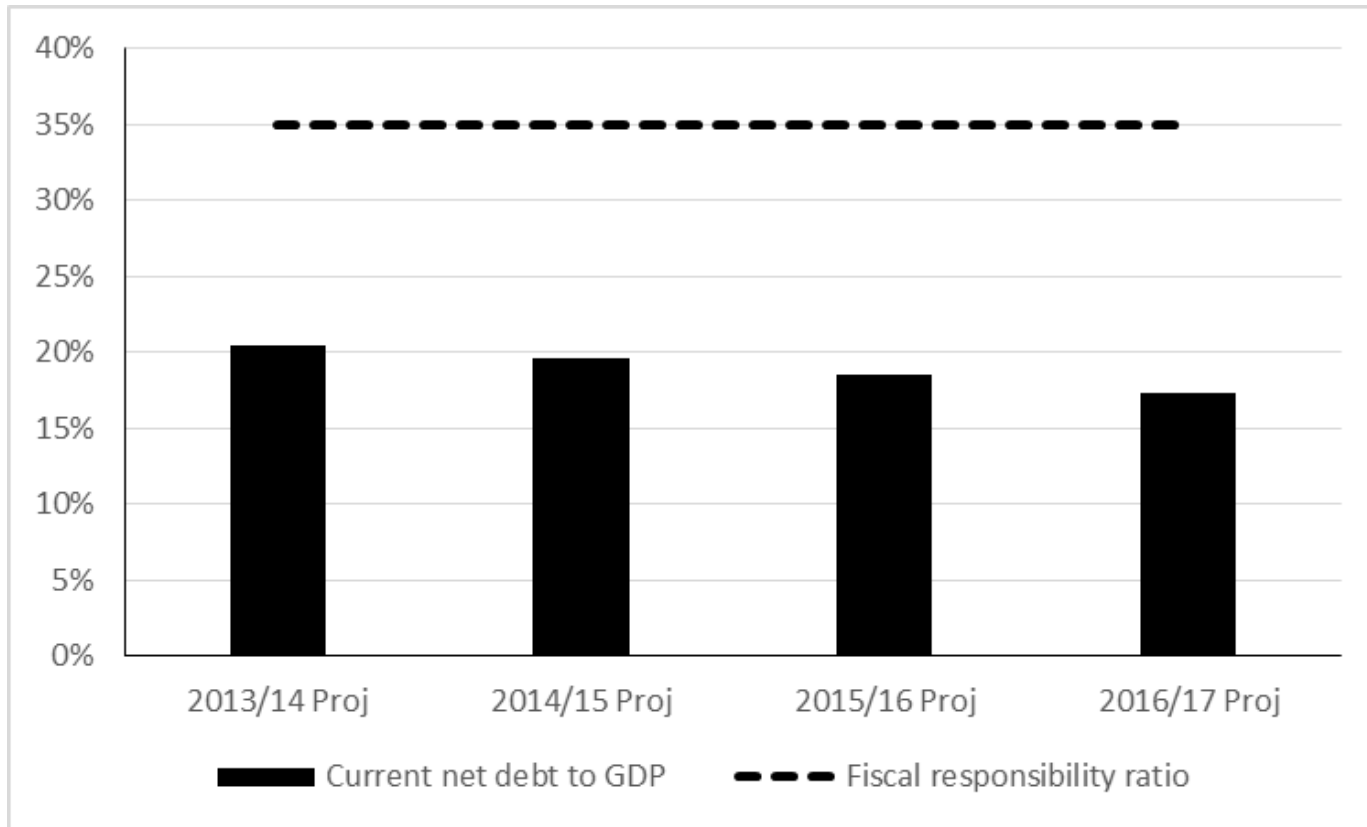
Current Statement	2013/14	2014/15	2015/16	2016/17
	Proj	Proj	Proj	Proj
Statement of Borrowings	\$m	\$m	\$m	\$m
Gross Crown Debt, End of FY	100.0	98.1	94.0	89.2
... net of loan reserves, End of FY	83.8	83.3	80.5	77.1
as percentage of GDP	20.5%	19.6%	18.6%	17.4%
Loan Repayment Reserves Held	16.2	14.8	13.5	12.1
Gross Debt Servicing	5.6	6.0	6.4	6.9
Net Debt Servicing	4.0	4.1	4.5	4.8
... as percentage of Total Revenue	3.8%	3.5%	3.6%	3.9%

Loans drawn down	Date loan taken	Original loan amount (000)	Current balance (000) (NZD)	Expected date of repayment	Amount covered by loan reserve
ADB 461 (SF) Multi Project	November, 1980	SDR 1,000	623	August, 2020	-
ADB 567 (SF) CIDB Project	July, 1982	SDR 1,500	562	April, 2022	562
ADB 849 (SF) 2nd Multi-Project	December, 1987	SDR 2,067	1,961	August, 2027	1,961
ADB 1031 (SF) Outer Islands Telecom Project	October, 1990	SDR 3,541	4,582	August, 2030	4,582
ADB 1155 (SF) 2nd CIDB Project	March, 1992	SDR 939	1,150	December, 2031	1,150
ADB 1171 (SF) Emerg. Telecom Rehab Project	August, 1992	SDR 291	396	June, 2032	396
ADB 1309 (SF) Pearl Industry Dev. Project	December, 1994	SDR 336	434	August, 2034	-
ADB 1317 (SF) Educ'n Dev Project	February, 1995	SDR 1,836	2,647	August, 2034	-
ADB 1380 (SF) 3rd CIDB Project	January, 1996	SDR 1,538	2,192	September, 2035	2,192
ADB 1466 (SF) Economic Restructure Program	September, 1996	SDR 3,430	4,840	September, 2036	-
ADB 1588 (SF) Cyclone Emergency Rehab Project	January, 1997	SDR 475	811	January, 2038	-
Restructured French Loans	January, 1999	Euro 5,413	2,636	September, 2018	2,636
ADB 1832 (SF) Waste Mgt Project	December, 2001	SDR 1,695	2,275	June, 2033	-
ADB 2174 (SF) Cyclone Emergency Assist Project	June, 2005	SDR 1,895	3,665	June, 2045	-
China - Multi-Functional Indoor Sports Stadium	August, 2008	RMB 74,100	13,161	August, 2028	-
ADB 2472 (OCR) Avatiu Port Development Project	September, 2009	USD 8,630	10,309	November, 2033	-
ADB 2473 (SF) Avatiu Ports Development project	September, 2009	SDR 8,346	8,212	November, 2040	-
ADB 2565 OCR Economic Recovery Support Program 1	January, 2010	USD 10,000	11,053	October, 2024	-
ADB 2739 (OCR) Amendment Avatiu Port project	December, 2011	USD 4,700	5,614	November, 2035	-
China - Rarotonga Water Ring Main Upgrade	December, 2012	RMB 118,000	15,597	December, 2032	-
ADB 2565 OCR Economic Recovery Support Program 2	December, 2012	NZD 7,250	7,250	December, 2028	-
Total loans drawn down			99,970		13,479
Loans committed to but not yet disbursed					
China - Rarotonga Water Ring Main Upgrade	December, 2012	RMB 118,000	6,802	December, 2032	-
Total loans committed to but not yet disbursed			6,802		-
Total loans commitment			106,772		13,479

Net debt service to total revenue




Current Net Debt to GDP



General Economy

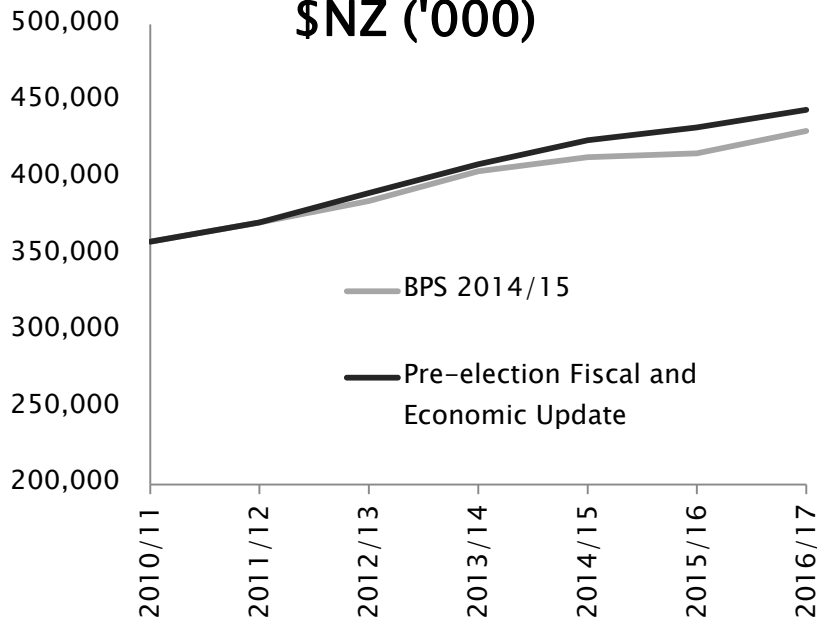
- ▶ Tourism remains the economic lifeblood of the Cook Islands
 - Growth is fragile, reversible, and based on the Cook Islands' brand as a tourist destination
- ▶ Economic prospects are exposed to international conditions
 - ...But not as much as if we were still exporting agricultural commodities
- ▶ Inflation has been very contained
 - Due in part to a strong NZ dollar

General Economy

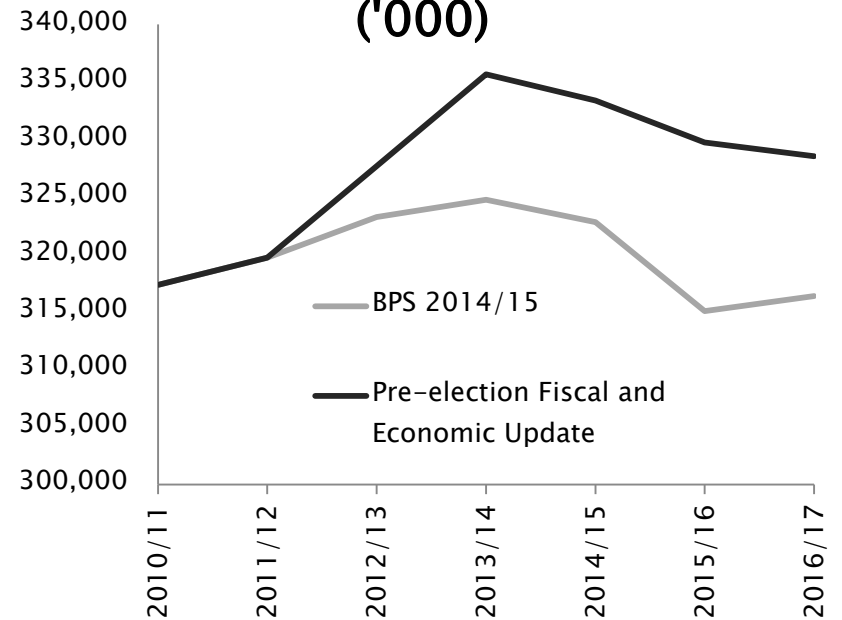
- ▶ It's unlikely that agriculture will ever export anything other than niche products (noni, coffee and maybe vanilla)
 - Servicing the domestic consumer and tourist markets is probably a better policy
 - ▶ Labour shortages are pronounced
 - In both the public and private sector, as evidenced during new business start-ups and vacancies across the public service
 - ▶ Public capital investment profile the main economic risk outside of tourism
- 

Economic Update

Nominal GDP, 2010/11 \$NZ ('000)



Real GDP, 2010/11 \$NZ ('000)



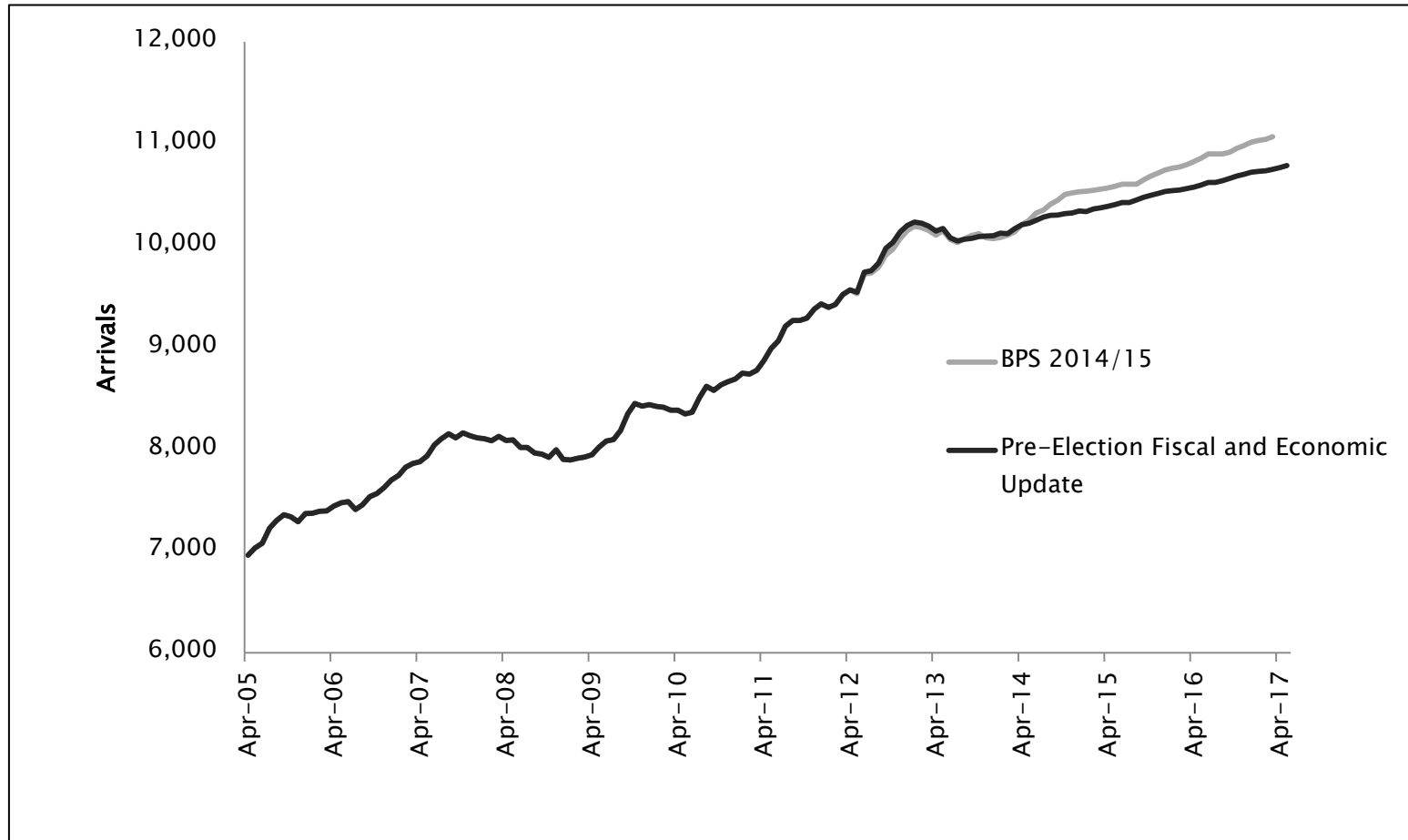
Nominal GDP

Real GDP

Economic Update

	2013/14		2014/15		2015/16	
	2014/15 BPS	2014 PEFU	2014/15 BPS	2014 PEFU	2014/15 BPS	2014 PEFU
Nominal GDP growth (%)	5.0	4.8	2.3	3.9	0.6	1.9
Real GDP growth (%)	0.5	2.2	-0.6	-0.7	-2.4	-1.1

Tourist Arrivals (average per month)



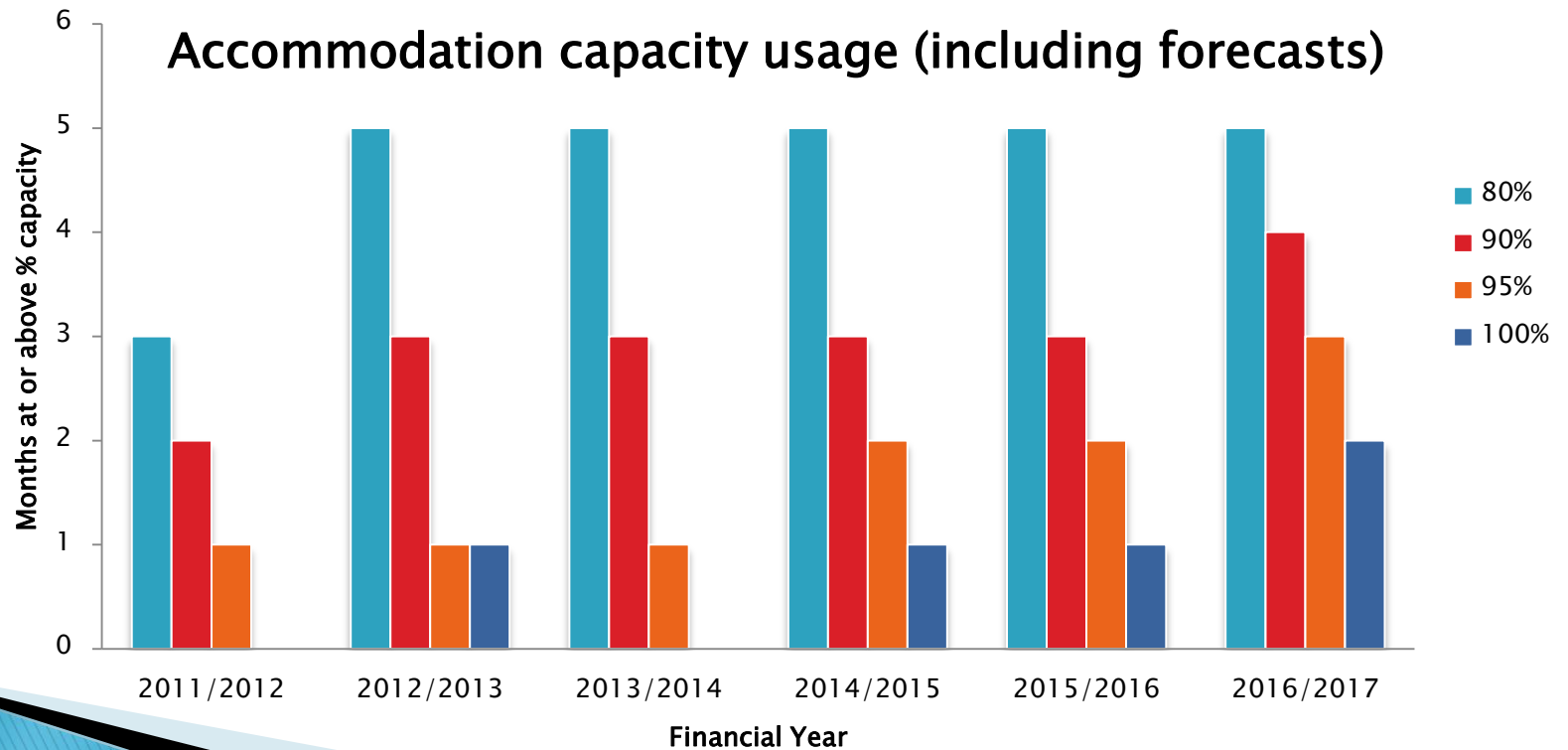
Tourist Arrivals

Year	Total arrivals
2010/11	108,752
2011/12	116,844
2012/13	120,909
2013/14	123,000
2014/15	125,100
2015/16	127,400
2016/17	129,700

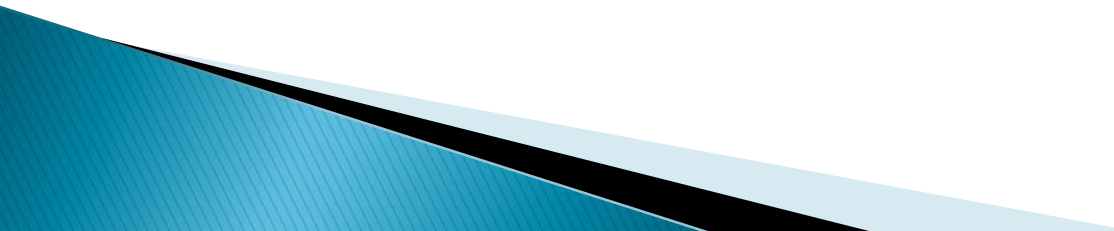
- ▶ Forecasts take in actual data to March 2014.
- ▶ Constraints in accommodation capacity for some accommodation types emerging in peak season.

Capacity constraints...

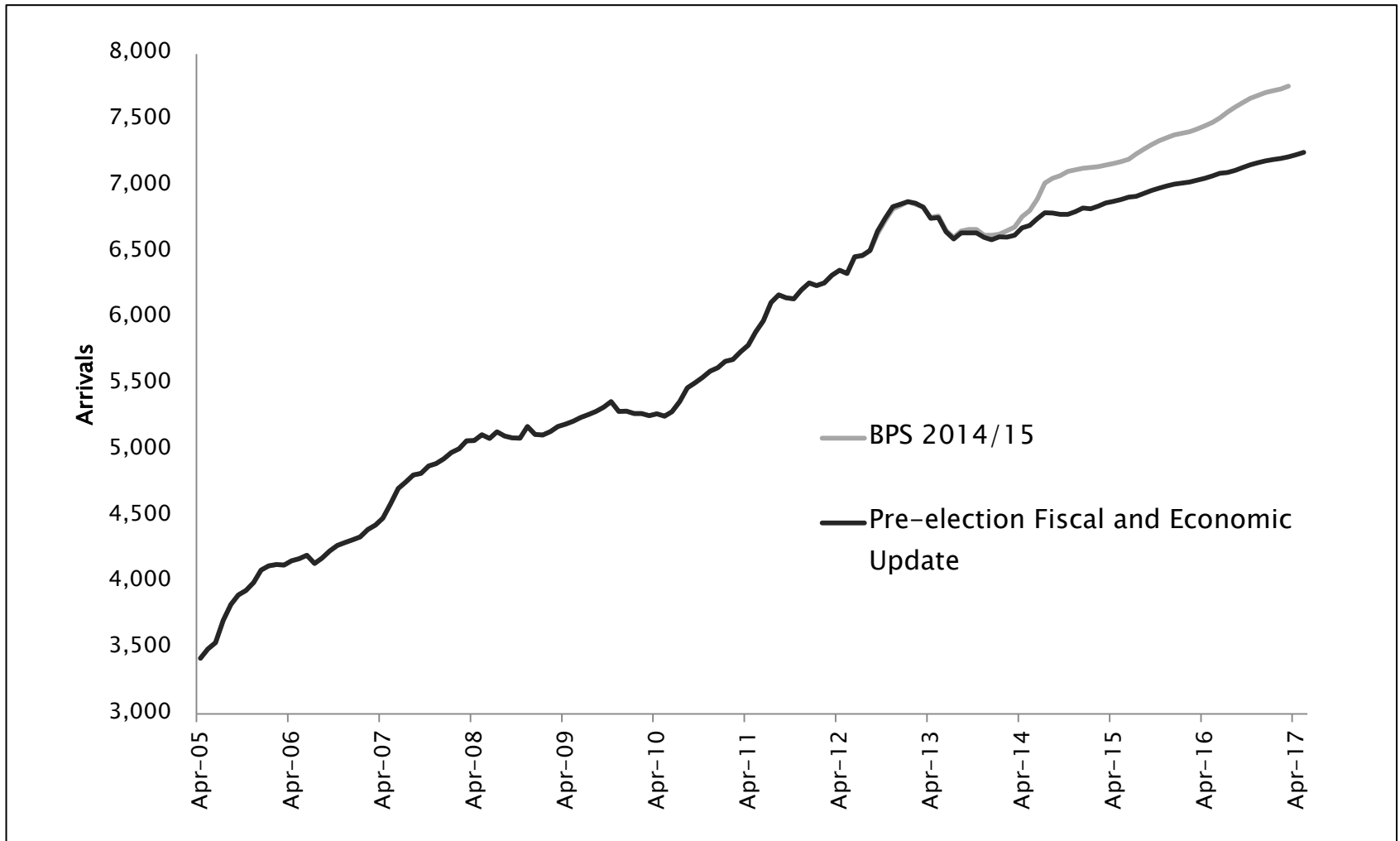
- ▶ Growth in tourism could be constrained if capacity does not expand to meet forecast demand.



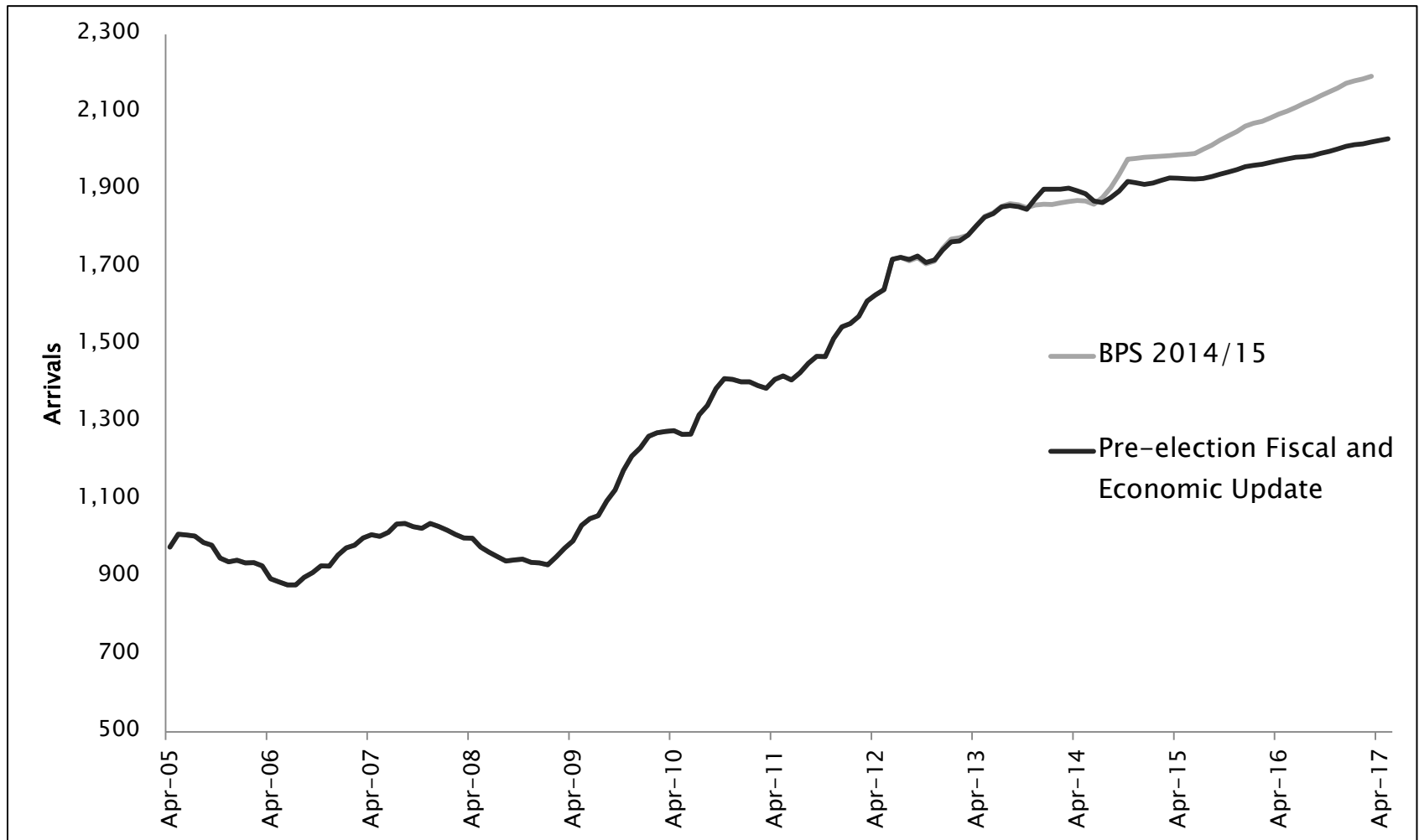
....but...

- ▶ New investment is slowly coming online and may have an impact on volumes
 - ▶ Value for money of tourism accommodation and services could be an alternate strategy
 - ▶ Either way, private investment is needed, and both volume and value need to be addressed
- 

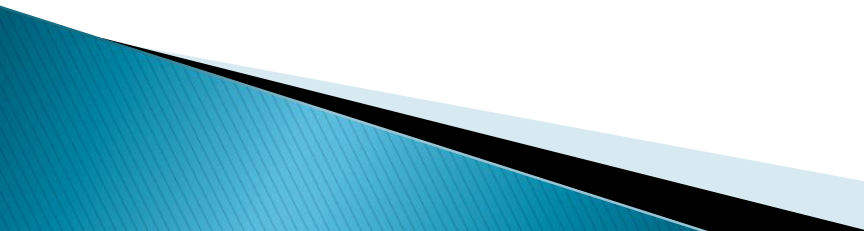
New Zealand



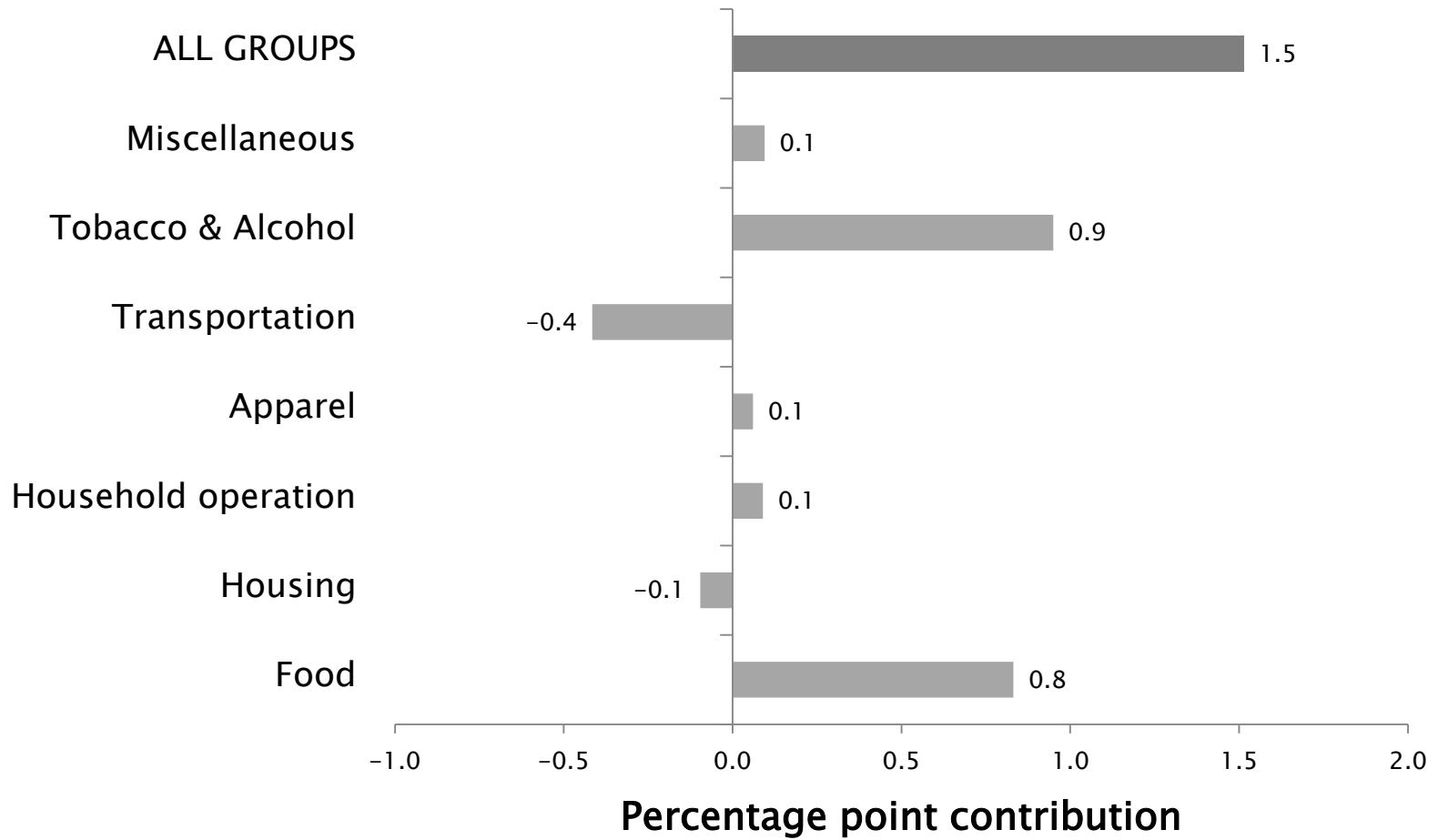
Australia



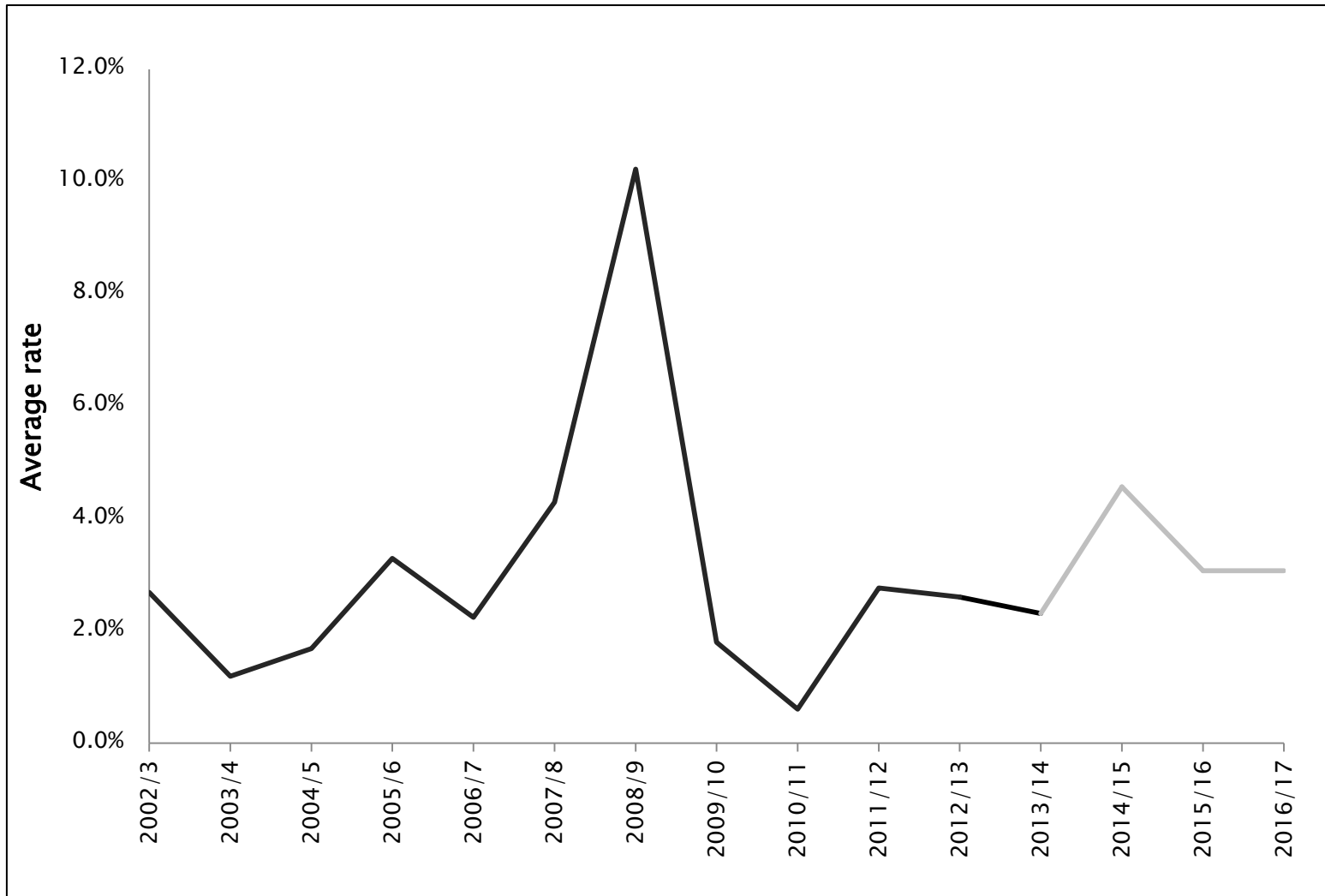
Other Markets

- ▶ Remains weak and growth is expected to be relatively flat.
 - ▶ Arrivals from other markets grew a revised 2.1 per cent in 2012/13 and is expected to grow by 2.4 percent in 2013/14.
 - ▶ Growth in the outer years is expected to be conservative and remain static pending market indications going forward.
- 

Consumer Price Index

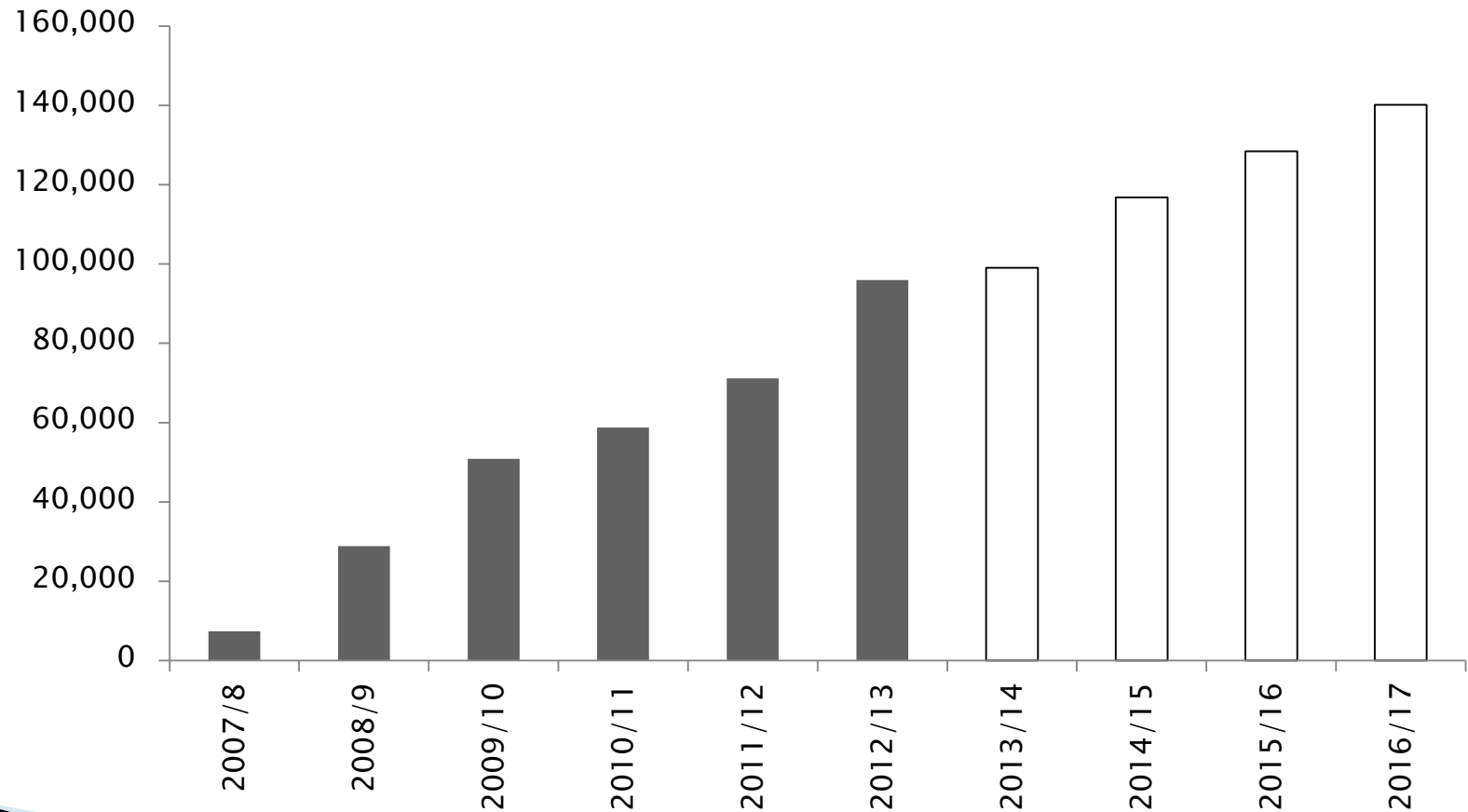


Consumer Price Index

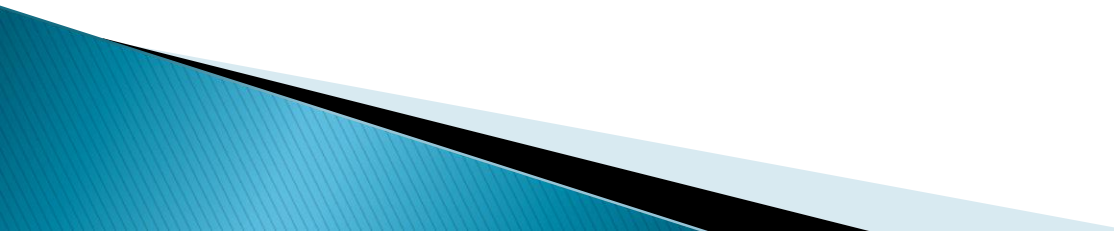


Balance of Trade

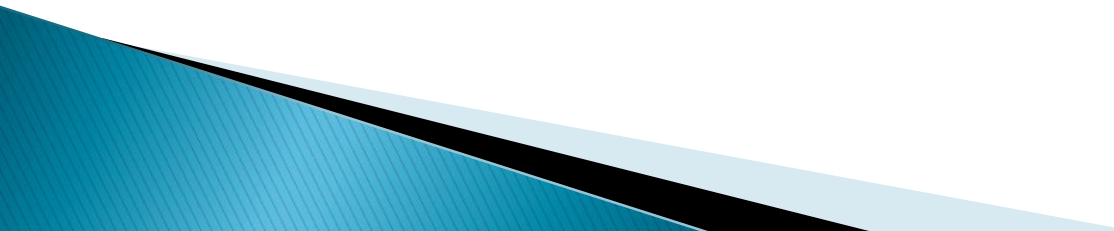
Balance of Trade, \$NZ ('000)



Industries

- ▶ Fisheries are growing in catch, and hence license revenue.
 - Revenue to Government is the main economic return (apart from some offload from the Chinese vessel)
 - ▶ Pearls continue to struggle internationally due to poor production, a high local price, and low international price (little incentive to export)
- 

Industries

- ▶ Agriculture continues to decline, accounting for 2.7 per cent of GDP (approximately \$7.7m) in 2012.
 - ▶ Limitations to agriculture include: labour shortages, market access issues, high local wages, low water supply, and high cost or irregularity of transport options
- 

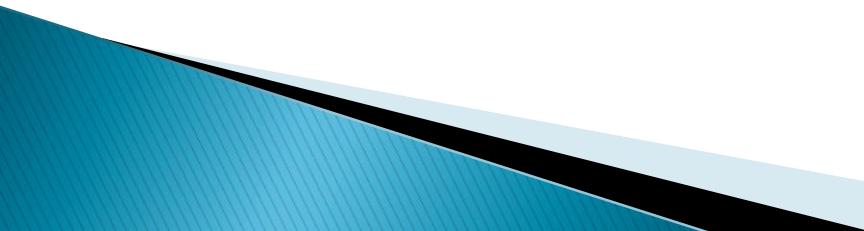
Capital

- ▶ Additionally, further savings of \$0.927 million were identified in Capital expenditure which are summarised below:
 - the fit out of the Auckland Consulate general in Manukau of – \$0.008 million;
 - changes to the procurement of an ambulance for Rarotonga – \$0.110 million
 - deferral of Road Network Maintenance – \$0.150 million
 - deferral of Water Network Maintenance – \$0.110 million
 - deferral of Mangaia Water and Roads – \$0.084 million
 - deferral of National Education Renewal Program – \$0.190 million
 - deferral of National Health Renewal Program – \$0.135 million
 - deferral of Deferral of further improvements in the CI Government Procurement Website – \$0.140 million
 - Operating expenditure has increased by \$2.455 million to accommodate critical expenditures which were approved by an Order in Executive Council following the dissolution of the Parliament.
 - \$0.868 million in welfare adjustments as a result of the Tax Review;

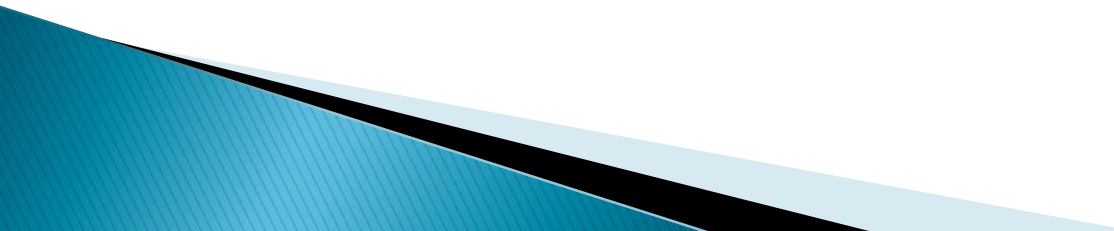
Capital continue....

- ▶ Additional expenditure and development in capital which has been re-appropriated and re-prioritised amongst all capital projects originally budgeted as follows:
 - Vaimaru Water Upgrade \$0.050 million
 - Mangaia Excavator \$0.084 million
 - Mauke Manea Games \$0.138 million
 - Turangi Clean Up Project \$0.060 million
 - Emergency Mission – Pukapuka Airport Repairs \$0.375 million
 - Emergency Mission – Mitiaro Salvage Excavator and Airport Repairs \$0.099 million
 - Emergency Mission – Atiu Airport Repairs and Upgrade \$0.074 million
 - ICI Upgrades \$0.030 million
 - Education building completion \$0.123 million
 - Aitutaki Fuel Storage Facility \$0.070 million
 - RMS Web Lodgement System \$0.200 million

Official Development Assistance

- ▶ Total ODA contribution from development partners was estimated at \$59.4 million in the 2013/14 Budget.
 - ▶ Official Development Assistance budgeted for 2013/2014 has decreased by \$3.1 million reflecting changes in delivery times being partially offset by development partners committing additional funds that were not appropriated at the time of the 2013/14 Budget.
- 

Other policy issues

- ▶ The Cook Islands credit rating has been assessed as B+(Stable)
 - ▶ The PEFA assessment has shown overall improvement
 - ▶ Tax reform issues can be discussed as part of costing proposals or as a separate discussion
- 

Other policy issues

- ▶ The 2014–15 Budget would ideally be passed by 31 September 2014

Questions