

CITIZENS BUDGET GUIDE



THE CITIZENS BUDGET GUIDE – A SNAPSHOT OF THE COOK ISLANDS NATIONAL BUDGET



Kia Orana. It gives me great pleasure to present this general guide for the 2019/20 Medium-term Budget: Te Akapapa'anga moni no te Aroa.

The 2019/20 Budget is the first year of the 2019/20 – 2022/23 Medium-term Fiscal Strategy (MTFS) and signals the Government's commitment to sound fiscal and economic management.

The Budget reconfirms adherence to the fiscal rules outlined in the MTFS, an improvement in the fiscal balance and a declining debt profile. This is in the context of strong economic growth, which is expected to moderate over the forward budget years to 2022/23.

The Government's focus in the 2019/20 Medium-term Budget is on improving the country's productive capacity by:

- 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.
- Investing in the capabilities of Government Agencies to ensure they operate effectively and efficiently.

Key budget measures to meet these policy elements are increased funding for:

- Law and Order** – to ensure our citizens are protected by an adequately resourced Police department, served by an efficient Justice system, and our criminals can be rehabilitated, over \$1.5+ million has been provided to ensure vital personnel can be compensated.
- Health** – to ensure that Cook Islanders have access to a strong health care system and are able to meet their productive potential, an additional \$1.8 million has been provided to Ministry of Health to employ the right specialists and skilled medical personnel, and to increase the Patient Referral fund which supports urgent medical travel referrals.
- Roads and Drainage** – safe and strong roads are vital to the community, and are also an important asset towards the tourist experience. Additional road improvements are factored in for both Rarotonga (\$8+ million) and the Pa Enua as part of a multi-year commitment.
- Government Agencies including Island Administration** - all government agencies have been provided additional funding to meet their strategic objectives. Additionally, to enable the government to pay competitive wages and attract returning highly-skilled Cook Islanders, funding is being provided to all agencies in a phased approach over the medium-term.
- Pension 70+ and Caregivers Allowance** - to recognise their important contribution to society, the Caregivers allowance is being increased to \$200 per month, and to more adequately meet the needs of our aging community, the pension for those over 70 has been increased to \$700 per month.

The 2019/20 Budget is an investment in the future of the Cook Islands by ensuring essential services and infrastructure are available to support economic stability.

The MTFS can be found at www.mfem.gov.ck/economics and the 2019/20 Medium-term Budget can be found online at www.mfem.gov.ck/treasury/budget-and-economic-policy.

Kia Manuia,

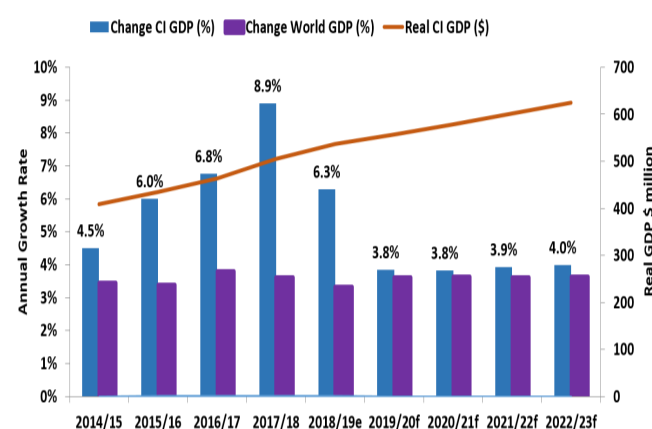
Honorable Mark Brown
Minister of Finance

The 2019/20 – 2022/23 Medium-term Budget shows the strong progress that Government has achieved fiscally, with strong revenue, reasonable expenditure and low debt levels resulting in improved fiscal balance estimates over the coming four years.

The Cook Islands economy continued to grow strongly at 9% real growth in 2017/18 – with growth expected to moderate to more sustainable levels over the forward budget period.

Average annual real growth between 2019/20 and 2022/23 is forecast to be 3.9%, following estimated growth of 6.3% in 2018/19. The key drivers of this economic growth are strong tourism arrivals and higher levels of public and private capital investment.

Growth is expected to remain positive, but at a reduced rate, due to slower growth in tourist arrivals and lower levels of private and government capital spending. Key risks to growth include a potential reduction in visitor arrivals, external exchange rate or oil price shocks and delays in capital project implementation.



Summary of Key Economic Indicators

	2017/18 Actual	2018/19 Estimate	2019/20 Projected	2020/21 Projected	2021/22 Projected	2022/23 Projected
Economic activity						
Nominal GDP (\$'million)	516.3	557.9	581.3	607.4	635.2	664.5
Percentage change (YOY)	13.0	8.1	4.2	4.5	4.6	4.6
Real GDP (at constant 2016 Prices, \$'million)	504.4	536.2	556.9	578.1	600.9	624.9
Percentage change (YOY)	8.9	6.3	3.8	3.8	3.9	4.0
Inflation						
Percentage change (YOY)	0.4	-0.4	1.1	1.6	1.8	1.8
Tourism Arrivals						
Visitor arrivals ('000)	164.8	166.2	170.0	174.6	178.3	181.8
Percentage change (YOY)	6.2	0.9	2.3	2.7	2.1	2.0
External sector						
Merchandise trade balance (\$'million)	-190.6	-196.7	-200.6	-205.3	-209.4	-209.4
Exchange rate (USD/NZD average)	0.71	0.66	0.67	0.68	0.70	0.71

This strong economic position has resulted in a positive fiscal outlook for the Cook Islands. In 2019/20, it is estimated that the operating surplus (the difference between revenue and operating expenditure) will be \$18.6 million, or 3.2% of GDP, reflecting an increase in the collection of taxes, in particular VAT. Going forward, changes in expenditure and revenue estimates are anticipated to result in an operating surplus of \$18.6 million (3.1% of GDP) in 2020/21 followed by smaller operating surpluses of \$14.4 million (2.3% of GDP) in 2021/22 and \$19.4 million (2.9% of GDP) in 2022/23.

Government's expected fiscal balance (the difference between operating balance and capital investments plus depreciation) for 2019/20 is estimated to be a deficit of \$8.1 million or -1.4% of GDP, followed by a deficit of \$3.2 million (-0.5% to GDP) in 2020/21 and surpluses of \$2.0 million in 2021/22 and \$7.6 million in 2022/23. The deficits in 2019/20 and 2020/21 will be financed by the utilisation of cash reserves. The reduction in the fiscal



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deficit estimates are a result of the expected completion of capital projects prior to the full commencement of new projects, as well as the continued increase in revenue collections over the medium-term.

Summary of Key Fiscal Indicators

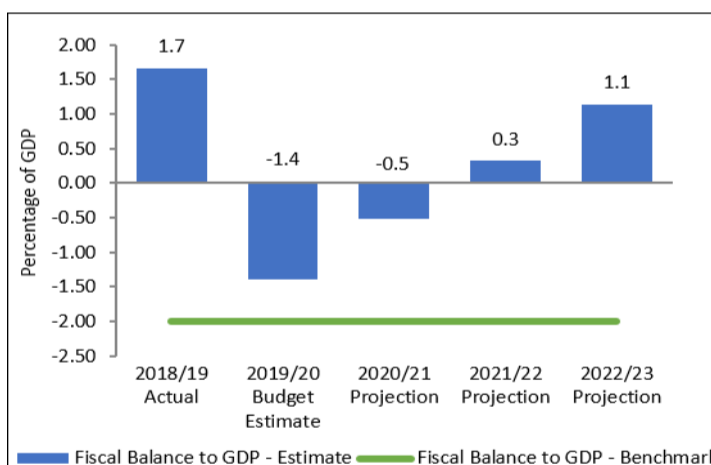
	2017/18 Actual	2018/19 Estimate	2019/20 Budget Estimate	2020/21 Projection	2021/22 Projection	2022/23 Projection
Total Operating Revenue	180.7	196.0	188.8	192.4	192.3	195.4
<i>Of which: Taxation Revenue</i>	140.6	144.6	151.6	156.4	159.5	162.6
Total Operating Expenditure	152.0	165.7	170.2	173.7	177.9	176.0
<i>Of which: Personnel</i>	55.7	62.0	69.6	74.5	77.9	78.3
Operating Balance	28.7	30.3	18.6	18.6	14.4	19.4
<i>As a percentage of GDP</i>	5.6	5.4	3.2	3.1	2.3	2.9
Capital Expenditure	21.6	35.2	40.4	35.5	26.1	25.5
Fiscal Balance surplus/deficit	20.4	9.2	-8.1	-3.2	2.0	7.6
<i>As a percentage of GDP</i>	3.9	1.7	-1.4	-0.5	0.3	1.1
Statement of Financial Position						
Working Capital	125.9	130.5	58.8	47.8	41.3	39.9
<i>Working Capital (months coverage)</i>	10.9	10.3	4.5	3.6	3.0	3.0
<i>Stabilization Account</i>	0.0	0.0	56.7	56.7	56.7	56.7
Statement of Borrowings						
Net Crown Debt, end of FY	95.6	117.9	108.0	99.2	89.4	80.1
<i>As a percentage of GDP</i>	16.8	26.4	18.6	16.3	14.1	12.1
Loan Repayment Reserves Held	18.1	20.9	21.4	21.1	20.1	19.0
Development Partner Support						
Grants	50.6	22.8	57.5	28.9	14.6	3.8
<i>As a percentage of GDP</i>	9.8	4.1	9.9	4.8	2.3	0.6

Due to the strong fiscal surplus in 2018/19, unallocated cash reserves (working capital) are estimated to be \$56.8 million in 2019/20. Going forward this is expected to remain steady due to the appropriation of excess cash into the Stabilization Account to help ensure financial stability for the Cook Islands and provide for security in the case where a natural disaster or economic downturn occurs.

The Stabilization Account was set up in the 2019/20 budget, with \$56.7 million of the \$115.5 million in working capital expected to be available by 30 June 2019.

Exchange rate forecasts have resulted in significant changes to debt levels with net debt estimated to be \$9.9 million lower than 2018/19, to \$108.0 million.

Revisions to GDP forecasts have resulted in a net debt estimate of 18.6% of GDP, down from 26.4% at the time of the 2018/19 Budget. Debt levels are expected to further improve over the forward estimates to 12.1% of GDP in 2022/23.



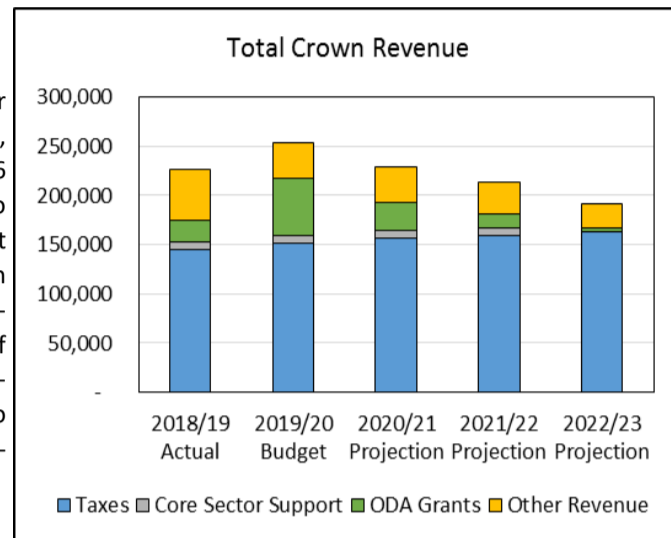
Rules	Unit	Threshold	19/20	20/21	21/22	22/23
Total Expenditure Growth	%	4	1.4	-0.7	-2.5	-1.2
Net debt to GDP	%	30	18.6	16.3	14.1	12.1
Fiscal balance to GDP	%	-1.9	-1.4	-0.5	0.3	1.1
Cash reserves	Months	3	4.5	3.6	3.3	3.0

Revenue and Grants

Total tax revenue is estimated to be \$151.6 million in 2019/20. This is largely made up of Value Added tax (\$72.8 million), Income tax (\$27.8 million) and Company tax (\$22.2 million). In addition, \$14.7 million is expected to be received from fishing revenues.

This revenue is complimented by \$7.7 million in Core Sector Support from the New Zealand Government for the Ministries of Health and Education and the Cook Islands Tourism Corporation, as well as \$57.5 million in other donor grants.

New Zealand remains our largest development partner, with a contribution of \$32.6 million in 2019/20. China also contributes a significant amount of donor funds which totals up to \$10.8 million respectively. A large portion of the funds provided by donor partners will contribute to large Government Infrastructure projects.

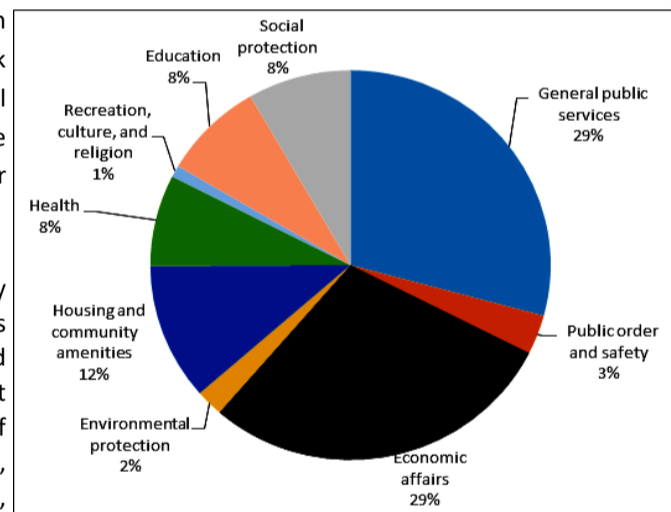


Expenditure

Total Government expenditure is divided across numerous functions of Government. As outlined below, General Public services are by far one of the largest areas of total public expenditure at around 29% in 2019/20 with the Cook Islands Government administration costs being the main driver.

Economic Affairs is next, at around 29% of total expenditure. This is mainly driven by tourism spending through appropriations by the Cook Islands Government, as well as energy and infrastructure expenditures through our donor partners.

Housing and community amenities (which includes infrastructure) is the third largest area of spending at 12%. Other major areas of spending are education, health and social protection, at 8% for 2019/20.



Summary

The 2019/20 – 2022/23 Medium-term Budget highlights the Government's focus on continuing to establish a strong and developed country for future generations. Strong fiscal management is at the forefront, with fiscal surpluses forecasted, together with savings of revenue to ensure long-term economic and fiscal stability.

