

# PM Budget speech 2023/24

## Intro

Kia Orana Mr Speaker, the King's Representative, Sir Tom and Lady Marsters, Members of Parliament, and my fellow Cook Islanders both in the Pa Enuā and here on Rarotonga.

Before we progress to the issues that draw us together today, I would like to take this moment to acknowledge a milestone of substantial importance that transpired beyond our shores. On the 6<sup>th</sup> of May, a ceremonious event took place as His Majesty, King Charles the Third, ascended the throne as the sovereign of our long-standing ally. On behalf of our small but proud Pacific nation, we extend our heartfelt congratulations. Long may he reign.

Mr Speaker, I am pleased to be here today to talk about the Government's 2023 Budget, the key financing mechanism that will help guide our economy as it continues to get back on track. It is my honour and privilege to present to you my lucky number 13 Budget as your Minister of Finance.

Mr Speaker, the last year has shown how resilient we are as a nation, and as a people. We have experienced the largest economic recession in Cook Islands' history, and one of the largest economic falls in the world. But Mr Speaker, as a country, we rose to face these challenges together. And together, we are prevailing.

## The Last Two Budgets

Budget 2021's theme was the "Revival Budget". The Revival Budget focused on critical measures aimed at safeguarding our people and stimulating our economy. We transitioned from a phase of response to recovery, navigating the uncertain tides of global events with resilience and resolve.

Mr Speaker, our strategic economic measures have indeed proven effective as we have seen our economy surge by an impressive 21 per cent this year, which is a testament to our shared determination and drive. Upon the reopening of our borders, we witnessed the fruits of our hard work as we saw a welcoming influx of tourists, fuelling much of this remarkable economic growth. The past year will have seen an encouraging influx of almost 130,000 visitors gracing our shores which has been a welcome relief for our people and our local businesses.

Budget 2022's theme was "Keeping the Faith". Mr Speaker, over the last year we have held the faith in the measures introduced for our health and economic response. As a result, we now find ourselves in a

stronger position than we were since December 2021. Last year's Budget laid the economic foundations for a speedy recovery and future growth.

Mr Speaker, before I introduce this year's Budget, with the end of the COVID-19 pandemic as a public health emergency of international concern, it is fitting to acknowledge the generosity of our development partners who have collectively provided \$112 million dollars over the last 4 years to directly support our response to the pandemic, plus an additional \$40 million to support our infrastructure investment going forward.

On behalf of the Cook Islands Government, I extend my appreciation and thanks to the Asian Development Bank, the People's Republic of China, Japan, the Australian Government and the International Labour Organisation (ILO) for all your support.

However, a special commendation is due to the New Zealand Government. Their significant contribution of \$21.4 million dollars in budgetary support this year alone, and an overall support of \$107 million dollars over the past 4 years has been a cornerstone of our economic recovery.

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### **Budget 2023**

The 2023 Budget is about "Nurturing our Nation". Nurturing can be compared to a season of growth and renewal after a time of difficulty and hardship. This can be seen in Isaiah 61:3 which says, "To appoint unto them that mourn in Zion, to give unto them beauty for ashes, the oil of joy for mourning, the garment of praise for the spirit of heaviness; that they might be called trees of righteousness, the planting of the Lord, that he might be glorified."

Just as a season of growth requires tending to the soil, planting seeds, and watering them, nurturing a nation requires intentional efforts to heal and rebuild after difficult circumstances. This can include investing in education and healthcare, creating opportunities for economic growth and job creation, and promoting social and political unity.

Working together as a community to create a better future for all is essential in the nurturing of a nation. Just as plants rely on each other for support and nutrients, individuals in a nation must support and uplift each other to thrive and flourish. By focusing on the common good and working towards a shared vision of a better future, a nation can emerge from adversity stronger and more united than ever before.

Mr Speaker, today's budget is one that shows the government's commitment to fiscal responsibility through rebuilding our financial reserves in the aftermath of the pandemic, while ensuring we extend our hand to the most vulnerable in our society. This delicate balance prepares us for the uncertainties of the future, fortifying us to face any forthcoming challenges.

While our country has been through a great trial, with one of the largest falls in GDP in the world, we are still standing, and the future looks promising. This promise further validates the policies taken during the pandemic to support our people and ensure our businesses were ready to respond the moment our borders reopened.

The responsibility shown in this Budget allows us to provide support to members of our society who are struggling and recognising those who give their time for people who are unable to care for themselves. This Budget allows for the increase in financial assistance to allow these people to care for their loved ones as well as those who are struggling to make ends-meet. Along with the changes to the minimum wage, this support is important in an environment with rising costs of living.

Mr Speaker, let us turn our attention to the exciting developments in our nation's tourism connectivity. This past weekend, we witnessed the arrival of our first flight from Hawaii, signalling a new chapter in our post-pandemic journey. And next month, we anticipate the resumption of direct flights from Sydney. These connections extend beyond the bounds of our valued partnership with New Zealand, injecting a much-needed diversity into our tourism industry and further supporting our ongoing recovery. These connections widen our outreach, connecting us to a broader array of tourism markets, thus paving the way for a more robust and resilient future.

### **Economic and fiscal outlook**

Mr Speaker, today's Budget shows that despite the uncertainties ahead, the economic forecast of the Cook Islands has signalled that we have emerged from the depths of the pandemic, setting our course back towards the prosperity we once experienced.

Our GDP is on the rise again as forecasts have indicated an impressive growth trajectory, with GDP projecting to grow by 12 per cent in financial year 2024, and maintaining its upward momentum in financial year 2025, at around 4 per cent. While this rate of growth may appear strong, it is indeed a natural rebound, an expected reaction in the wake of a profound economic disruption such as the one we experienced.

However, we must also acknowledge the surge in price inflation as we have faced the highest in our history. Factors beyond our control such as the global supply chain disruptions and the geopolitical tensions, such as the conflict between Russia and Ukraine, resulting in volatile oil prices, have contributed to this.

Over the past year to March 2023, inflation was 12.1 per cent, and food prices rose by a staggering 20.1 per cent. I would like to stress that this inflation is something Government cannot control, as it is coming from outside of our country. But it affects our people through rising costs, and while we cannot control it, we can help our people respond.

Amid this challenging scenario, we discern a ray of hope. The growth rate of prices has shown signs of deceleration over the past six months. Inflation appears to have peaked in September 2022 and, mirroring our counterparts in New Zealand and Australia, is moving in a favourable direction. While this course correction will require time, we take heart in these promising signs.

This Budget includes measures to provide some immediate relief for the vulnerable in our society, while in the longer term the work that continues to be done through our Economic Recovery Roadmap will help put some downward pressure on prices.

Mr Speaker, I would like to say a few words about Resilience.

### **Resilience**

Resilience is the ability to keep standing up in the face of adversity. When Cook Islanders look to the future of our country, our communities, our businesses, our economy and our environment, we're increasingly relying on our resilience to carry us through the tough times.

No doubt, we have encountered setbacks along the way, yet we have emerged from them with remarkable fortitude. However, these challenges serve as a reminder that we must plan to ensure our readiness for future blows that will inevitably come our way. Sadly, and for politicians especially, resilience is rarely visible. Nonetheless, it is an imperative concept that demands our attention. Resilience calls for a shift in perspective, a perspective that transcends short-lived victories in favour of enduring achievements spanning generations. The task of building and maintaining reserves for the rainy days may not be as exciting or headline-grabbing as some other actions we take in government, and it is only in hindsight that the wisdom of doing so becomes apparent.

As we look back to the decision to create the stabilisation account in 2019, that funded so much of our initial response to the pandemic, that we see that it was indeed a wise decision. And now, as we look

forward, we must again make a wise decision, and that is to rebuild our financial reserves to respond to that next big hit, whenever it may come. But we must also do more than this, because resilience is not only about financial reserves.

Across our physical infrastructure, the social fabric of our communities, and the way we respond to and plan for climate change, resilience is the key to a prosperous future. When thinking about recovery and resilience, we need to think about how we address the complexities of the social impacts felt by families and communities alongside the physical and economic impacts.

We must consider how to carry our families and communities through the tough times that are causing the stresses today, and also how we nurture and sustain our social resilience in the longer term, for Cook Islanders now, and into the future.

### **Economic diversification**

We all know that to be truly resilient we must look beyond tourism to grow our economy over the longer term. Economic diversification has been on our agenda for a long time, and this challenge cannot be addressed overnight.

We are well aware that in order to nurture our private sector's ability to invest in new industries we need to first have the right economic foundations in place. This means continuing our program of providing better internet connectivity in the Pa Enua, taking more business practices online, and ensuring our business and investment laws create an enabling environment, free from unnecessary and burdensome impediments. Through the strategic measures outlined in the Economic Recovery Roadmap, this Government is providing a solid foundation which will in turn, achieve economic diversification.

### **Fiscal outlook**

Turning to fiscal responsibility now Mr Speaker, this year's Budget moves the Government towards a more neutral fiscal stance. This means that we spend only as much as we take in, instead of putting cash into the economy to prop it up.

We need cash in the bank, and we can, and should, only borrow so much to do that. This is important to ensure the government has enough money available to respond to another economic shock or a natural disaster, or that we have the fiscal capacity to take out loans to respond if we need to, and as we have done.

The existing increase in debt, and the need to repay it with interest, remains a key challenge for us going into 2024 and beyond. Our debt servicing costs are projected to increase to over \$30 million per year by the end of this decade. This is three times our servicing costs prior to the pandemic, and will demand a significant part of our revenue.

We are talking with our funding partners about ways to manage our debt so we can continue to manage the economy while also paying back our debt, but we must also be prudent with our spending.

We must acknowledge directly that the 2023 Budget is a lean budget when compared with those in recent years and the 2024 Budget is projected to be similar. The recovery of Government revenues will fall behind the economic recovery once we consider the tax cycle and the need to allow businesses to recover.

However, this does not mean that we should not spend money, especially when it can make a more positive difference for our country's future. Government still needs to invest in the economy to support our future resilience, and we will continue do this through the Economic Recovery Roadmap, through investment into seabed and marine resources, and through capital investments. Now is not the time for austerity, but for **wise** investments.

#### **KEY BUDGET INITIATIVES - OPERATING**

##### **Pa Enea Income Tax concession**

Mr Speaker, we know that life in the Pa Enea faces additional challenges to life on Rarotonga, so we look to address those challenges where we can. We understand the importance of fostering an environment that encourages individuals to embrace the Pa Enea as not just a place to live, but also as a place to work and thrive.

Today, I stand before you to reaffirm the announcement made during the election in 2022 where we have removed the requirement for individuals earning below \$60,000 in the Pa Enea to pay income tax. While this Tax Concession will reduce government income by around \$2.8 million dollars per year, the pay back will result in lowered cost of living in the Pa Enea and a greater incentive to maintain the livelihoods of those who reside there and call these islands home, as well as expand the operation of businesses in the Pa Enea.

##### **Development of new Airline Routes**

We have planned an increase of \$5.3 million dollars in the 2024 Budget and a total increase of \$15.3 million over three years to support contracts with airlines to provide access to markets beyond New

Zealand. Economic diversification takes time to develop, and it will take significant time before other industries can challenge tourism as our economic lifeline. These links allow for a greater diversity in the markets we source our tourists from, reducing the reliance on New Zealand – who will remain our most important market.

These arrangements are necessary to support tourism recovery and growth by supporting air-routes that would not be financially viable for the airlines without support, and where the economic benefit of the tourism to the Cook Islands outweighs the cost to Government.

### **Education and Health**

Recognising the importance of both health and education to our future, we have provided for a total of \$600,000 dollars over the next four years to support the third tranche of the teachers' pay adjustments, and an additional \$1.2 million dollars over four years to recruit and retain critical health personnel.

### **Seabed, Marine and the Environment**

And lastly in regard to our government department budgets, increases for some Ministries with key initiatives upcoming have been provided. Just three examples of this are the National Environment Service, Ministry of Marine Resources and the Cook Islands Seabed Minerals Authority.

In the case of the National Environment Service, government is supporting the implementation of data collection work associated with the National Environment Policy to help protect our natural environment. One aspect of protecting our environment is waste management, and NES are going to undertake projects to deal with accumulated or legacy waste of vehicles and whiteware over the next two years. Government is also providing some additional support to the Ministry of Marine Resources to ensure that our marine environment is managed responsibly.

Mr Speaker, our seabed minerals present a substantial opportunity for us to fulfil our country's long-term prosperity by being part of the global supply chain for critical metal needs for the transition to green energy. In order to realise this, we must continue with the precautionary approach we have been taking towards developing our seabed minerals sector. Our precautionary approach is founded on the protection of our marine environment, science-based decision-making, robust regulatory frameworks, and most importantly bringing our people along the journey. To support this, and to ensure we apply best international practices, the Seabed Minerals Authority has been provided with some additional funding to continue their work. Through our Exploration Research Programme, we will continue to gain more

knowledge and information about our minerals and the potential impacts of harvesting them. This is a journey of discovery for our country, and I am proud to support this endeavour.

### **Building up reserves and financial assets**

We remain committed to building up reserves and financial assets, for our resilience. This Budget includes a sensible plan for the repayment of loan principals for the loans taken out by the Government during the pandemic, while also supporting our progress into both operating and fiscal surpluses.

This also includes ensuring we have balances available in the stabilisation account and loan repayment funds to ensure we can meet our obligations.

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### **KEY BUDGET INITIATIVES – CAPITAL INVESTMENTS**

Mr Speaker, I have spoken many times about the importance of capital expenditure, about its ability to employ workers and stimulate our economy, particularly while investment from private companies is limited. Governments all over the world know this, and the Cook Islands is no different. That's why it's one of the Economic Recovery Roadmap workstreams.

Capital expenditure in this Budget will continue the Government's investment themes from the previous year.

In this Budget, Government has focused on projects that are either already in progress or in development in order to deliver economic stimulus to the Cook Islands. These are intended to quickly employ local contractors and labour, such as the Te Tau Papa O Avarua – the Avarua Town Plan project which is funded by the Infrastructure Trust Fund. This undertaking is set to employ a number of individuals, providing them with opportunities to acquire new skills while contributing to a project of national significance.

Furthermore, we remain engaged in endeavours aimed at ensuring the safety and security of our people in the event of cyclones, both in Rarotonga and the Pa Enea.

### **Physical Infrastructure**

Infrastructure Cook Islands will continue their important work on physical infrastructure on Rarotonga and the Pa Enea, with an ongoing focus on bridges and roads on Rarotonga, and marine and air infrastructure works in the Pa Enea, including on Nassau and Manihiki.



Cook Islands Investment Corporation continues its focus on Government building works. All of these projects employ local businesses and labourers on both Rarotonga and the Pa Enea.

As well as spending through the Budget, the Government is actively discussing additional capital investment proposals with our donor partners. We continue to work with New Zealand on proposals to fund projects through the Infrastructure Trust Fund, with a strong emphasis on shovel ready projects that will keep our people employed and help to retain our skilled labour.

### **Changes to social payments to help the most vulnerable**

And Mr Speaker, turning finally to our social support programmes.

I commented earlier that inflation has been significant, but out of the Government's control. While we continue to work on reducing inflation, we must also help our vulnerable populations more directly. Our families, both in Rarotonga and the Pa Enea, are feeling the pinch as the cost of bread, fuel and other necessities increase. Government has provided a total of \$3.4 million dollars over four years to cover increases in the number of welfare beneficiaries as well as the increase in the rates for Caregivers, Destitute and the Power Subsidy.

These payments help some of our most vulnerable people, and those looking after our most vulnerable – increasing these rates helps to bring them along with the recovery in the economy.

Recent research about our Social Assistance packages has indicated that the Cook Islands social protection system is achieving impressive reach across the population. Combined with the Child Benefit, the Old-Age Pension and the Power Subsidy Allowances, this has reached an equivalent of 91 per cent of the population either directly or indirectly. If the other benefits (like the Infirm Benefit) were included, the coverage would be even higher. These measures to assist our most vulnerable will help to continue the strong performance of our social welfare system.

### **Minimum Wage Increase to \$9.00 per hour**

To assist with the impacts of rising prices, the Government has also confirmed an increase in the minimum wage rate from \$8.50 to \$9.00 per hour. For a worker on 35 hours per week, that is an additional \$900 dollars a year. The increase of the minimum wage to \$9.00 per hour has required an additional provision for Government's spending on personnel, primarily in the Pa Enea. The total cost to Government is an additional \$1.5 million over four years.

### **INTERNATIONAL ENGAGEMENT AND REGIONAL LEADERSHIP**

Mr Speaker, climate change, COVID-19 and the energy crisis brought on by Russia's unlawful invasion on the Ukraine has reminded us of our acute vulnerability to the ebbs and flows of international forces.

At the same time, our health and economic response to COVID-19 has affirmed our ability to ensure the security and prosperity of our people through our own actions, and by cultivating international partnerships that respect our sovereignty and support our development priorities.

We will advance our interests and drive the following strategic priorities.

First, on the bilateral front, we will work closely with New Zealand to bring to fruition our shared aspirations as detailed in the 'Vaka Purua/Waka Houroa Partnership'. We will continue to partner with Australia to deliver on our commitments as detailed in the 'Oa Tumana Partnership Arrangement'.

We will continue to work closely with the People's Republic of China and Fiji to finalise our bilateral partnership arrangements so we can further deepen and expand our co-operation in trade, investment, tourism, ICT and people to people ties.

Second, as the current Chair of the Pacific Islands Forum, we will work closely with the Forum Troika, Fiji and Tonga to strengthen our regional leadership and amplify our Pacific advocacy on global issues like climate action and finance, debt sustainability, transport, fisheries, digital transformation and ensuring a nuclear free Pacific.

For the Cook Islands, this engagement as the Pacific Islands Forum Chair provides two fold gains, not only will the Cooks Islands be recognised as a regional leader who will bring about sustainable and transformative improvements, it also provides us with the opportunity to continue to project our voice in the global arena and place Cook islands on the global radar, which I firmly believe will bring about an increased interest in the Cooks islands, which should result in direct benefits to our economy and our people.

Together with all Forum members, our Forum Secretariat and regional partners, we will prioritise the completion of the 2050 Strategy Implementation Plan to be launched at the 52nd Pacific Islands Forum Leaders Meeting to be hosted in Rarotonga and Aitutaki from 6-10 November.

We will work proactively with the Forum Troika and all Forum members, Forum Dialogue Partners and our regional organisations who are part of the Council for Regional Organisations for the Pacific to secure Pacific Partnerships for Prosperity to support delivery of our 2050 Implementation Plan.

Third, we will step up engagement and participation in key multilateral organisations to protect our interests, cultivate coalitions so we amplify the advocacy of our Pacific priorities as detailed in our 2050 Strategy for the Blue Pacific Continent and we secure outcomes that will deliver transformative benefits to our people.

We will step up engagement with the following multilateral organisations - the International Monetary Fund (IMF), the International Renewable Energy Agency (IRENA), the International Maritime Organisation (IMO), the International Energy Agency (IEA), the United Nations Educational, Scientific and Cultural Organisation, the World Trade Organisation (WTO) and others.

Through these multilateral organisations, together with our Pacific community, we will work to strengthen, protect and use international rules and institutions to pursue the Cook Islands values and interests.

the intention here is to discuss how our resilience is demonstrated in taking on key leadership roles across the region – most obviously with the Forum, and ‘leading from the front’

Discussion around how in the shadow of pandemic recovery the Cook Islands is a leading voice for the Pacific on issues such as debt management, the broad geopolitical environment and ensuring that our voice, and those of our friends and neighbours across the region are heard.

I look forward to our ipukarea hosting leaders from the region to our shores in November. It will be an important opportunity for our nation to show our leadership contributions and create benefits for our people and our economy.

### **Conclusion**

Mr Speaker, today’s Budget is about nurturing our nation and ensuring we have the tools to remain resilient.

I leave you with a Budget that balances fiscal responsibility and the needs of our nation as we continue our journey towards our prosperous future.

Kia Orana tatau katoatoa, e kia manuia