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Deputy Prime Minister's Ministerial Budget Statement
Appropriation Bill 2020
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Madam Speaker, I am pleased to be here today to talk about the Government's 2020/21 Budget, the key financing mechanism that will help our country withstand the economic storm that we are facing.

Before I start, I would like to extend a warm welcome to everyone with us here today in Parliament, and to our people listening from Rarotonga, our Pa Enua, and abroad.

As the Minister of Finance, I am proud to fulfil my duty to present a budget today that will support our households and our businesses as we voyage together through this storm.

I call it a storm, because that is what we face right now.

COVID-19 has swept the world, coming out of the blue, killing thousands, devastating economies, and wreaking havoc in businesses and the lives of people. It has caused economic chaos.

We in the Cook Islands have been blessed that the worst of the storm has missed our little paradise so far, but have been and are still being bashed by strong and dangerous headwinds.

Those winds are in the form of some severe economic challenges that will affect everyone in our country, either directly now, or less directly as our economy absorbs the impact of this severe shock.

Madam speaker, this budget is about steering our country, our people, our vaka, through this storm, to safety and shelter on the other side.

2019/20

Before we look forward, we should first understand where we are now, how we got here, and even where 'here' is.

Last year's Budget was the first budget of our new Medium-term Fiscal Framework, and implemented the first year of the medium-term fiscal strategy.

That budget saw us move to a four-year planning horizon for Government, and the inclusion of what are called counter-cyclical fiscal measures. To put it simply that means when times are good we put money aside for a rainy day.

As part of that strategy, this Government transferred $56.7 million into a stabilisation account. Those funds are a blessing, and will position us well to face the huge challenges ahead.

But, I hear you ask, where are we today?

The first three quarters of this fiscal year indicated that we were going to continue to another record year of strong growth.

July 2019 saw record tourists arrivals, again, to the Cook Islands with 18 ½ thousand tourists, a record that has been growing year on year. Arrivals through to February were greater than the year before. Outside of tourism, construction was also growing strongly with Government and private investment. Business was booming!

But in December 2019 we began to hear news of a new virus in China.

In January and February we kept hearing further stories about the spread of COVID-19, by now a global pandemic. And by March countries were closing their borders to slow the spread of the virus.

And the Cook Islands, along with our Pacific Island neighbours, and New Zealand and Australia, made the decision to close our borders too.

I would like to pause for a moment here to acknowledge Te Marae Ora, our Ministry of Health, the Secretary and her officials who so quickly saw the risk of COVID-19 and began preparing.

We have been blessed that so much of their planning and preparation has meant that the virus didn't arrive here, that we have remained safe and healthy.

A lot of work went into that planning and preparation, to closing the borders, to managing the quarantine of stranded Cook Islanders in New Zealand in partnership with the Ministry of Foreign Affairs and Immigration, and bringing our family home safely.

There were many sleepless nights during those months, and again we say thanks to the Ministry of Health in particular for their tireless efforts.

Madam Speaker, we successfully kept the virus out, and likely saved many Cook Islands lives in the process, but there has been a cost to our economy, and it is a cost that will take some time to recover from.

Have no doubt that it is a cost that I believe all Cook Islanders agree was necessary to protect our people. We have a high population of mamas and papas, we have many who suffer from non-communicable diseases, both categories of high risk which would make the impact of COVID-19 deadly.

Having kept the virus out, at least for now, it is time to look toward the future, to look at what we need to do to balance the needs of our people, both the health needs and the economic needs. Most people think of big businesses when we use the word economic, but here its different, our economic needs are across all people and relates to those same mamas and papas whose health we need to protect.

The Cook Islands economy has roughly a 65 per cent exposure to the tourism industry. The shut-down of tourism to the Cook Islands caused an immediate and substantial economic shock which has had far reaching impacts within our community.

Our Gross Domestic Product, or GDP, is now expected to decline sharply by 9 per cent in 2019/20, keep in mind that this impact is due to one bad quarter.

This one quarter of the year has impacted businesses and households, it has cost jobs, affected livelihoods, and it will continue to do so for a while longer. However, I need to be clear that the impact would have been far worse, Madam Speaker, without the Government's initial Economic Response Plan.

GDP is forecast to contract by a further 5.3 percent in 2020/21. Now, that sounds bad, and it is bad, but to provide some context, that is a 5.3 per cent decrease over the course of a year, as opposed to over 9 per cent in just a single quarter.

While we expect this contraction to continue into the next year, it is with the Economic Response Plan that we can begin to look forward towards our recovery.

The Economic Response Plan is the centerpiece of the Government's 2020/21 Budget, it focuses on Lifeline Support, Kick-starting our recovery, and transforming our economy to become smarter, greener and more resilient.

How will we fund this I hear you ask. Allow me explain.

The strong economic growth of the last few years and the first 3 quarters of 2019/20 cushioned us somewhat from the shock in the 4th quarter.

Tax income for the year is forecast to be $140 million, that is $19 million below 2018/19's levels (or 88 per cent). The Government's Other Revenue is expected to reach $49.5 million, which is $0.5 million below expectations.

It is important to note that some of these funds are one-off receipts, such as the generous support provided by the Government of New Zealand of an additional $7 million to support the Economic Response Plan Phase I, as well as the support from Australia of $600,000.

These funds are vital in supplementing our fiscal reserves as we move into 2020/21, and are most appreciated. Having friends that look to support us at such times is incredibly valuable and reassuring, particularly as that support has been, and continues to be vital to our long-term recovery.

The strong revenues of 2019/20 will place us on reasonable footing as we enter the 2020/21 financial year. But balanced against this are our operating expenditures and capital.

Out total operating expenses for this year are expected to be $189 million, which is a sharp increase on the $157 million of the prior year.

The additional spending primarily relates to phase 1 of the Economic Response Plan, with $28 million of direct support set aside to support our people.

Capital expenditure in 2019/20 is estimated at $38 million, also slightly up on the prior year.

I announced last year that Government was launching a significant programme of capital investment, and I am proud to say that we have made strong progress this year.

But I probably don't need to tell you that, during a drive around the island you can see the Government's work in practice – roads, bridges, water and drainage. The work also continues in the Pa Enua with cyclone shelters, and roads.

Madam Speaker, once we consider our revenues together with our expenditures we result in a fiscal balance of minus $25 million, or minus 5 per cent of GDP.

When I say minus 25 million, this means that Government consumed $25 million of our cash reserves in 2019/20. But importantly, we had the cash reserves to do that!

And this is where those funds that we have accumulated over the past years through careful fiscal management and through prudent financial decision-making, those funds that we have put aside into our reserves, become so important.

Government started with $106 million in cash at the beginning of 2019/20. Even with a fiscal deficit of $25 million we are ending 2019/20 with $74 million in cash reserves. These cash reserves will serve us very well in 2020/21.

I have already mentioned our cash reserves, but there are more pieces to this puzzle.

With GDP set to reduce further in 2020/21, before an expected improvement in 2021/22, Government will need to endure several years of reduced income.

When a household enters a period of reduced income they have several options, they can opt to spend less money, they can borrow money, or they can find a way to earn more money.

It is harder for Governments, because the health of the economy depends so heavily on what decision the Government takes – if the Government spends less this can have real negative impacts on households and businesses – this is why the Government has chosen the path of stimulus.

If the next year goes according to our forecasts, the Government will remain in a reasonable position. We may have to spend a little less, and together we may need to find a way of earning a little more.

The Government has already commenced this process in the 2020/21 Budget and with the ERP. We have looked across Government and identified where funds can be better prioritised. We have had to put some new plans and programmes on hold, and redirected that funding towards core-services, and the Economic Response Plan.

In the last budget the Government started a programme of salary increases for public servants, reducing the pay gap to the private sector. These salary increases were expected to add around $6 million to Government expenditure over the next 2 years.

This programme has now been put on hold to ensure that the Government can deliver a fiscally prudent budget. We will reintroduce this programme at some point in the future, but only when it makes fiscal sense to do so.

I have talked about the fact that the Government's response is based on stimulus, not austerity. To that end I call this a fiscally responsible budget.

Whilst a few Government agencies have received modest funding increases where it was necessary, others have seen either minor reductions in funding or deferrals of their planned funding increases.

Government provides critical services to our people, and can only operate effective services with a certain amount of cash. Moving towards austerity would mean cutting government headcount and services, and affect our services to our people.

I think we can all agree that Government services were not where they needed to be in 1996, and we do not intend to return to that position. Nor is austerity what the economy needs right now – it needs counter-cyclical fiscal policy and fiscal responsibility. It needs stimulus.

Being fiscally responsible means looking at the funding that we could delay or divert to more important things, and we have done so.

Government's operating expenditure is forecast at $232 million for 2020/21. A little over a quarter of that is the economic response plan. These funds will be managed by the Ministry of Finance and Economic Management

We have also continued a fund for our medical response to COVID-19, which will support our work of opening the borders.

After the next fiscal year we expect to see our operating expenditure return to what we could call 'normal' levels, this is around $172 million per year.

We will continue to monitor the economy though, and the effectiveness of the economic response, and we will make future expenditure decisions as we gather that data.

The medium-term fiscal strategy also introduced what are called the Fiscal Responsibility Rules to the budgeting process. These rules guide the government in limiting the debt we take on, limiting expenditure and spending our cash reserves.

It is important to note that these rules would limit the government's ability to respond to the current economic situation. When we experience an economic shock of this magnitude the Government has the option of suspending its adherence to these rules, allowing us to make a stronger response.

To that end I can confirm that Government will not meet our rules on fiscal deficit, nor on expenditure. And we shouldn't. We need to use our cash reserves to the maximum we can, in support of our people in these unprecedented times.

The second way to manage reduced income, and only ever a short-term solution, is to borrow money.

The size of the economic response that government will undertake requires us to borrow extra funds. Government will draw down on debt agreements to borrow $70 million in 2020/21, and we expect to draw down another $17 million in 2021/22.

As the economic recovery gains steam we forecast that revenues will begin to improve by 2022/23, allowing us to commence paying down this additional debt.

There is a problem with borrowing money though. It has to be paid back, and with interest.

Madam Speaker, the Government has looked carefully at how much we must borrow, and in conjunction with using our reserves, and finding savings, we have minimised the loans we will draw upon.

The most important of the fiscal rules, which we call the fiscal anchor, is the Net Debt to GDP rule. This rule is there to prevent Government taking on too much debt, debt that we cannot support.

This rule sets a limit of 35% of GDP as the maximum net debt that government can take on. And I am very pleased to say that we have stayed within this limit.

But we will still incur a period of time with increased repayment requirements whilst we pay down this new debt. This will require yet more fiscal prudence over the medium-term to manage this effectively.

The last solution to reduced income is finding a way to earn more income as a country.

We had a plan to increase our country prosperity over the last 10 years, we put our vaka on a course and stayed true holding firm the ama in our voyage. Our vaka has been hit by a huge economic storm. Now we must patch up our vaka and plot a new course to renewed and restored prosperity.

Making more money is always a longer term or strategic plan, and leads us into the centerpiece of the 2020/21 Budget, the Economic Response Plan Phase 2.

The intent of ERP Phase 2 is to increase investment to drive growth in the absence of tourism, while supporting health and maintaining economic activity. It will aim to position the Cook Islands economy, and our businesses, to recover from this economic shock as quickly as possible.

The ERP Phase 2 is budgeted at a total of $76 million in 2020/21, through both direct and indirect budgetary measures.

Direct measures means through Government spending, this will draw upon our reserves or the funds we will borrow, and most of these funds will move into the community and the private sector in the form of support, grants, or loans. Direct support totals $64 million, and is being appropriated in the form of an Administered Payment.

Indirect measures include revenues that Government will forego. Or another way to look at it is these are funds that our people will keep in their pockets.

Phase 1 of the ERP started in March this year. Of the total package of $61 million at that time, $28 million was directly appropriated in the Supplementary Budget.

Those funds allowed us to provide business grants, wage subsidy and unemployment support to our people and businesses, keeping them afloat.

Here I would like to acknowledge the Ministry of Internal Affairs, the Cook Islands National Super Fund, the Private Sector Taskforce and my own Ministry of Finance and Economic Management. Phase 1 required an incredible amount of work to get up and running in the space of a few weeks, and these agencies responded and delivered a package of responses that have helped many, many people and businesses.

And now turning to Phase 2 of the ERP.

Madam Speaker, there are three thematic areas to the Economic Response Plan, these are

1. Lifeline
2. Recovery; and
3. Transformation

The first theme, the Lifeline, includes a range of short-term stimulus measures and initiatives that will deliver a **lifeline** of financial support to households and businesses.

Further, the ERP will deliver tools and initiatives for mid-term economic **recovery**, and it will lay the groundwork for the **transformation** to a more diverse and dynamic economy for the future. The measures included in the ERP Phase 2 include:

1. Continuing the Wage Subsidy –Extension of the Wage Subsidy for eligible businesses until September at an increased rate of $320 per week for full-time staff and $160 per week for part-time staff.
2. We will also continue the Unemployment Benefit – and include retraining initiatives for our people who have been left without unemployment.
3. An Emergency Hardship Fund – We will establish an Emergency Hardship Fund to provide essential relief for families and individuals facing financial hardship.

4. Reduce Superannuation Contributions to 1% - Extension of the current reduction in superannuation contributions for both employees and employers for another 3 months with a further reduction to one percent.

5. An Increase in Tax Free Threshold - for individuals from the current $11,000 per year to $12,800 on 1 January 2020, and then to $14,600 from 1 January 2021.

6. Te Aponga Uira discounts – A continuation of the TAU support by discounting the first $100 of your power bill and continuing the 60% discount for those businesses that are receiving business support.

7. Sole Trader Cash Grants – A one-off cash grant to provide immediate cash injection to all registered sole traders that are affected by the pandemic

8. Interest Relief Scheme – Support provided to help customers repay their interest, ensuring that the full amount of interest owed is not capitalised into the loan.

9. And a Business Continuity Credit Facility - that will provide access to low interest short-term loans for businesses.

I move on to Recovery – which is to help Kick-Starting Growth

Based on the pandemic's current trajectory, most indicators point to a gradual reopening of the country's borders.

Government recognises the need to ensure the country is prepared for the day visitors return, but even then, it is unlikely that we will return to our previous tourist arrival numbers immediately.

Phase II includes measures that focus on the medium-term and seeks to address some of the capacity constraints that we faced before March.

10. Training Subsidy - A training subsidy for employees and grant funding for those businesses that upskill their employees.

11. Fees Free – to encourage upskilling across the population the Government is providing funding to waive of fees at the Cook Islands Tertiary Training Institute and a select number of certificates offered by the University of the South Pacific during Semester 2.

12. Accelerated Depreciation- tax measures targeting businesses such as accelerated depreciation to encourage investment in new productive equipment

13. Business Growth Loan Program - Reduced interest longer-term loans and government-guaranteed loans to reduce finance costs for investment.

Transformation – Moving to a smarter, greener more resilient economy

Government can set up a platform for a diversified economy, but government is not itself a business. Instead we look the private sector to identify the opportunities, and we will support them where we can.

14. Smart Economy Initiative - The Government's soon-to-be online Manatua Cable and reform of the telecommunications sector are catalysts for a commercial ICT transformation. The Smart Economy initiative will provide a mix of grants, lower interest loans and tax credits to support commercial business ventures providing innovative ICT applications and services to business and consumers.
15. Smart Agri-tech - This initiative aims to foster innovation and productivity in the commercial agricultural sector by providing grant funding and equipment to encourage investment and improve commercial viability and economic sustainability.
16. Green Economy Incentive - Enhanced accelerated tax depreciation to encourage investment in environmentally sustainable assets with a focus on greening our economy.

We have heard about the importance of diversification over the last few months. A transformation of our economy will require significant diversification and this week we have started sowing the seeds for diversification.

It is so appropriate that this week's daily verses centered around the parable of the sower of seeds from the book of Mark. And the three key bills before the house this week were all aligned around sowing the seeds so that we can harvest the fruits in future years. Sowing the seeds to allow banking transformation in our country. Sowing the seeds to begin exploring the mineral wealth in our oceans that may increase our income and sowing the seeds here today that will continue to provide blessings to all our people. And we have been blessed. The scriptures gave us the lesson of putting aside resources during the 7 years of prosperity, so that we may endure the 7 years of famine. And this budget demonstrates that lesson Madam Speaker that when God blesses you financially, don't just raise your standard of living but raise your standard of GIVING. I therefore give this budget the name that it deserves – the Budget of Blessings.

The Government is able to deliver this Budget today because we set a plan 10 years ago and we followed it in a fiscally responsible manner over the past decade. The strong revenues that we have collected, the efficient management of debt, active investment in critical physical and digital infrastructure has positioned us well to be able to respond to the pandemic the way we have.

It is fitting then Madam Speaker, and to all of those listening at home and at work that I leave you with the verse from *Jeremiah Ch 29 Ver 11.*

For I know the plans I have for you, declares the Lord, plans for welfare and not for evil, to give you a future and a hope.

Kua kite oki au i te au akakoro anga taku i akakoro ia kotou nei, te tuatua maira Iehova, e akakoro anga au ia, kare to te kino, kia oronga atu au ia kotou I te openga ta kotou I manako ra.

I leave you with a budget that balances fiscal responsibility and the needs of our nation to help us navigate our voyage through this storm, to safety, together.

Kia Orana e Kia Manuia.