

BUDGET 2021-22

Revisión



Overview

- **Significant economic shock due to COVID-19**
 - Estimated economic contraction of -21.6% of GDP in 2020/21
 - Total estimated economic impact of COVID: -28.4% of GDP (15 months)
- **Government's responses:**
 - Temporary departure from the Fiscal Rules
 - Constraints on Operating Expenditure
 - Debt funding to support economic recovery
 - Economic Recovery Roadmap (ERR)
- **GDP is forecast to improve in 2022 with a moderate growth in tourists**
 - Forecast GDP increase of 8.8% in 2021/22 then 14.1% in 2022/23



2020/21 Results

\$ million	2020/21
Total Operating Revenue	154.0
Total Operating Expenditure	232.3
Operating Balance	-78.2
Capital Expenditure	40.0
Fiscal Balance surplus/deficit	-105.5
Net Crown Debt, end of FY	166.2
Net Debt, % GDP	41.9%
Nominal GDP	396.5
% Change in GDP (2019/20)	-21.6%

Estimated Results for 202/21

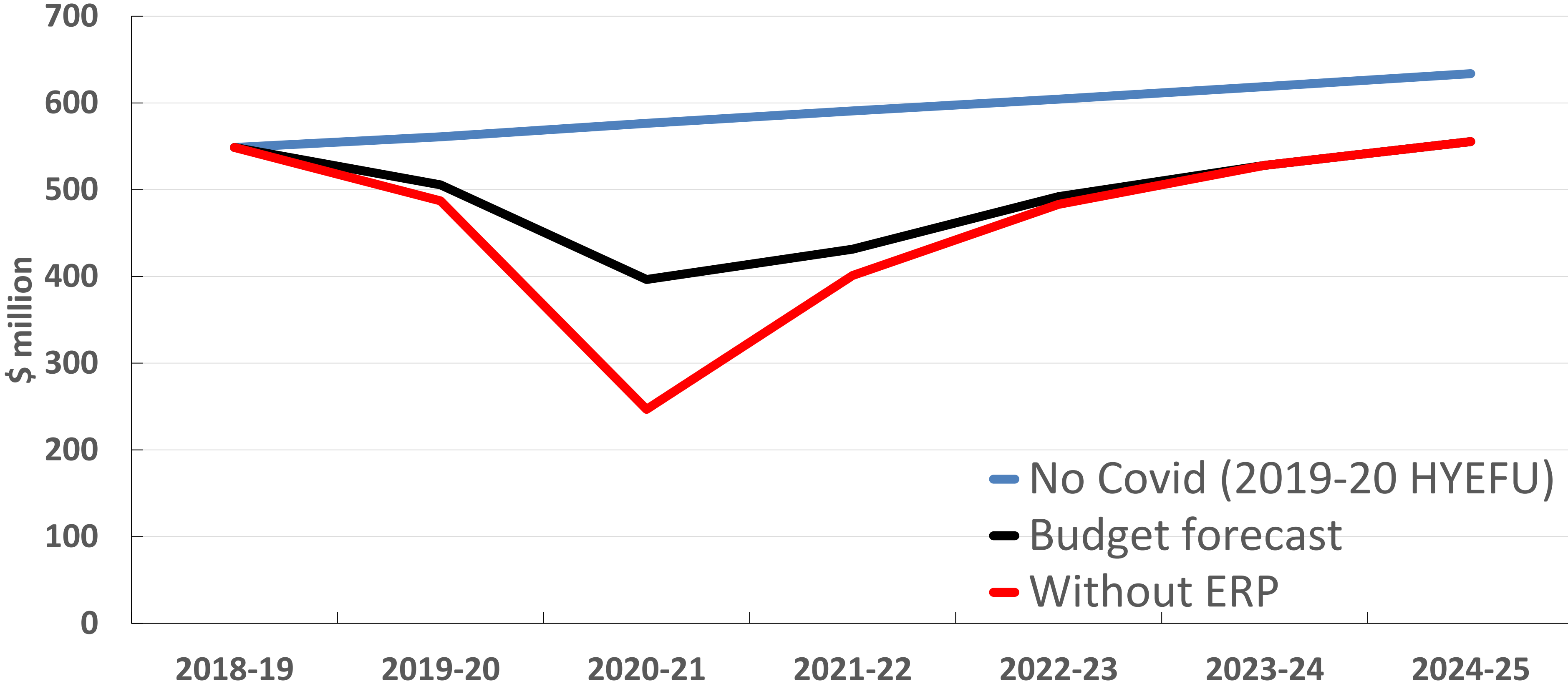


Economic Response Plan

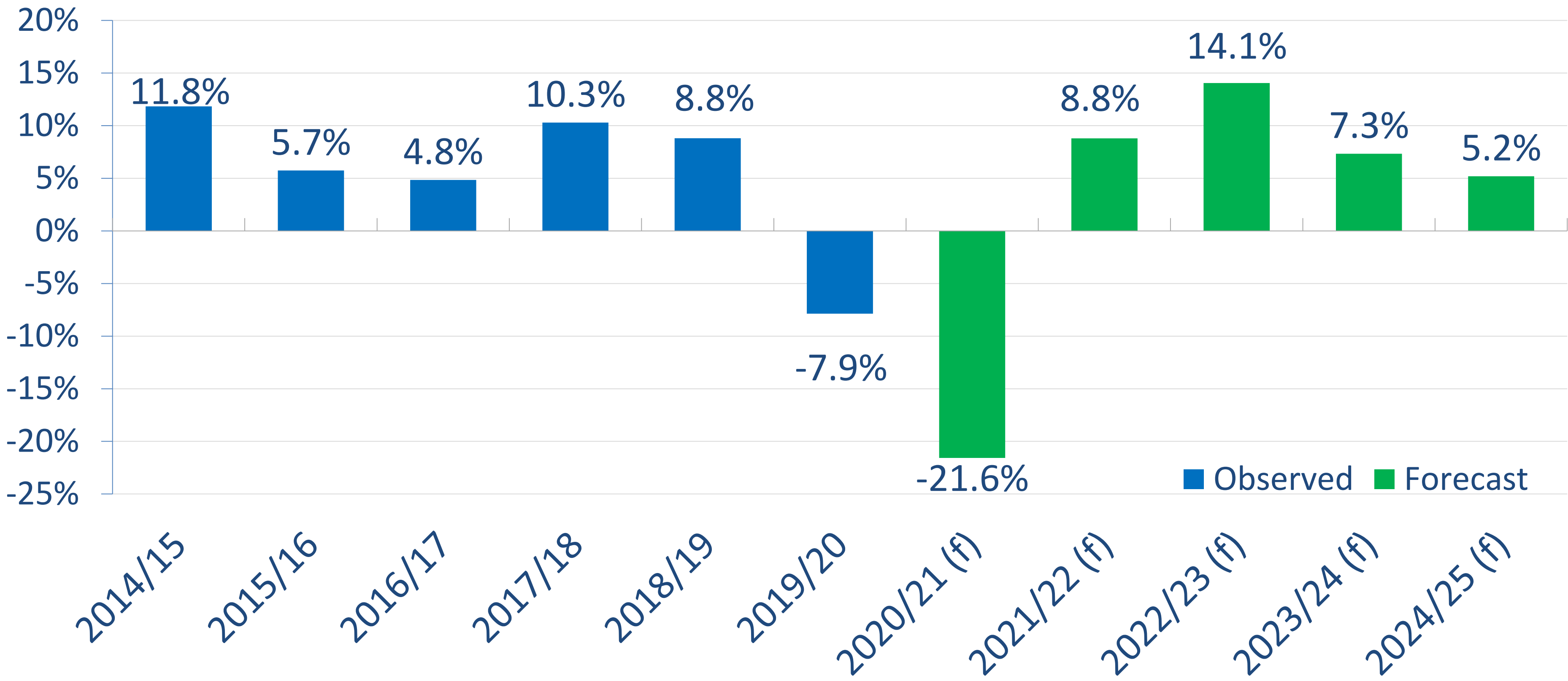
- Roughly halved the economic impact of COVID-19 in the Cook Islands
-55% → -28.4% (Nominal GDP)
- \$68.4 million in direct support subsidies
Business Grants, Sole Trader Grants, Social Benefits and Wage Subsidy
- \$17.8 million in Lending and Interest support
Business Continuity Credit Facility, Business Growth Loans and Interest Relief
- \$7.3 in Development Grants and Subsidies
Smart Economy, Smart Agri-tech, Training Subsidy, Training Grant, Fees Free



Economic Response Plan – GDP



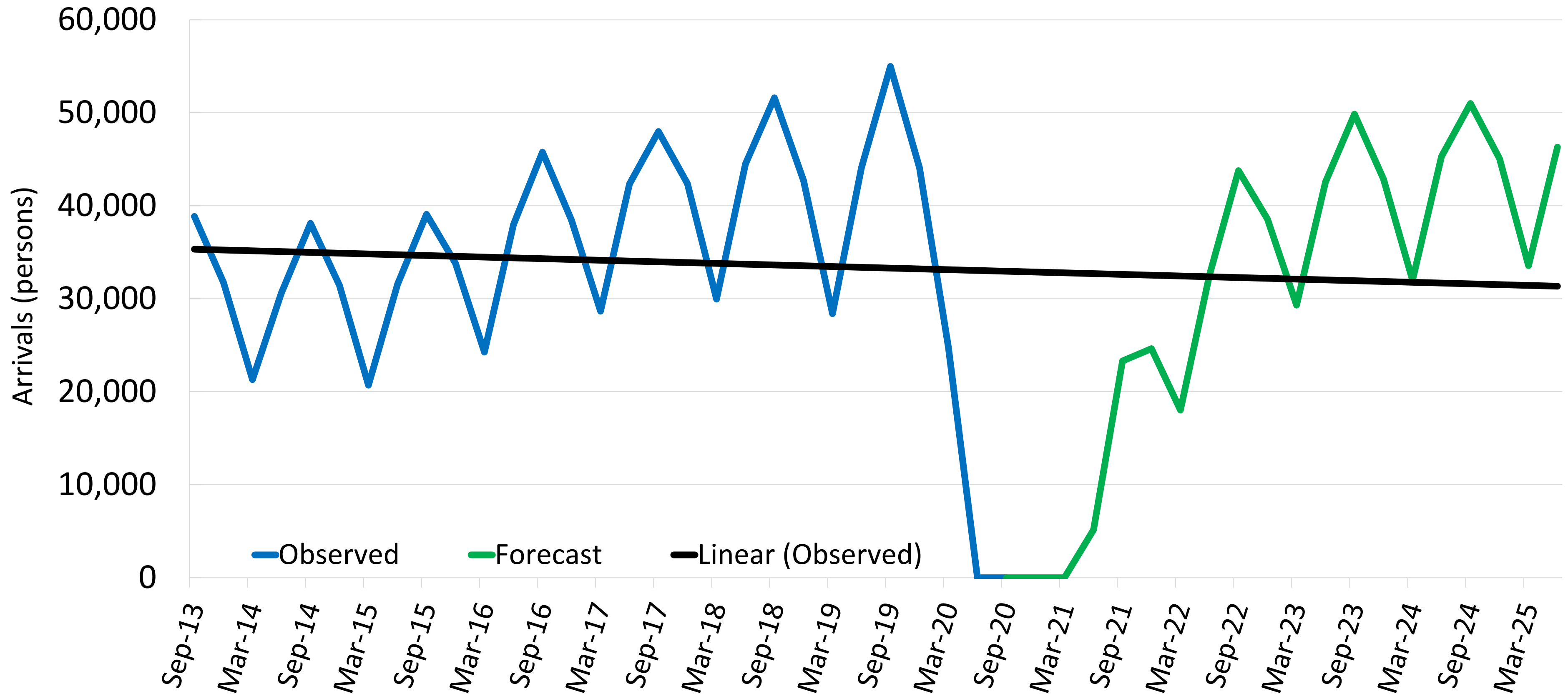
GDP Growth Outlook



(Nominal GDP)



Tourist Arrivals



Quarterly, 2013-2025

Fiscal Response

- Focus on core services with minimal new programmes
- Continued deferral of the Government-wide salary adjustments
- Continued departure from the fiscal rules
- Supplement Government revenues with further debt financing
- Economic Recovery Roadmap
- Capital investments

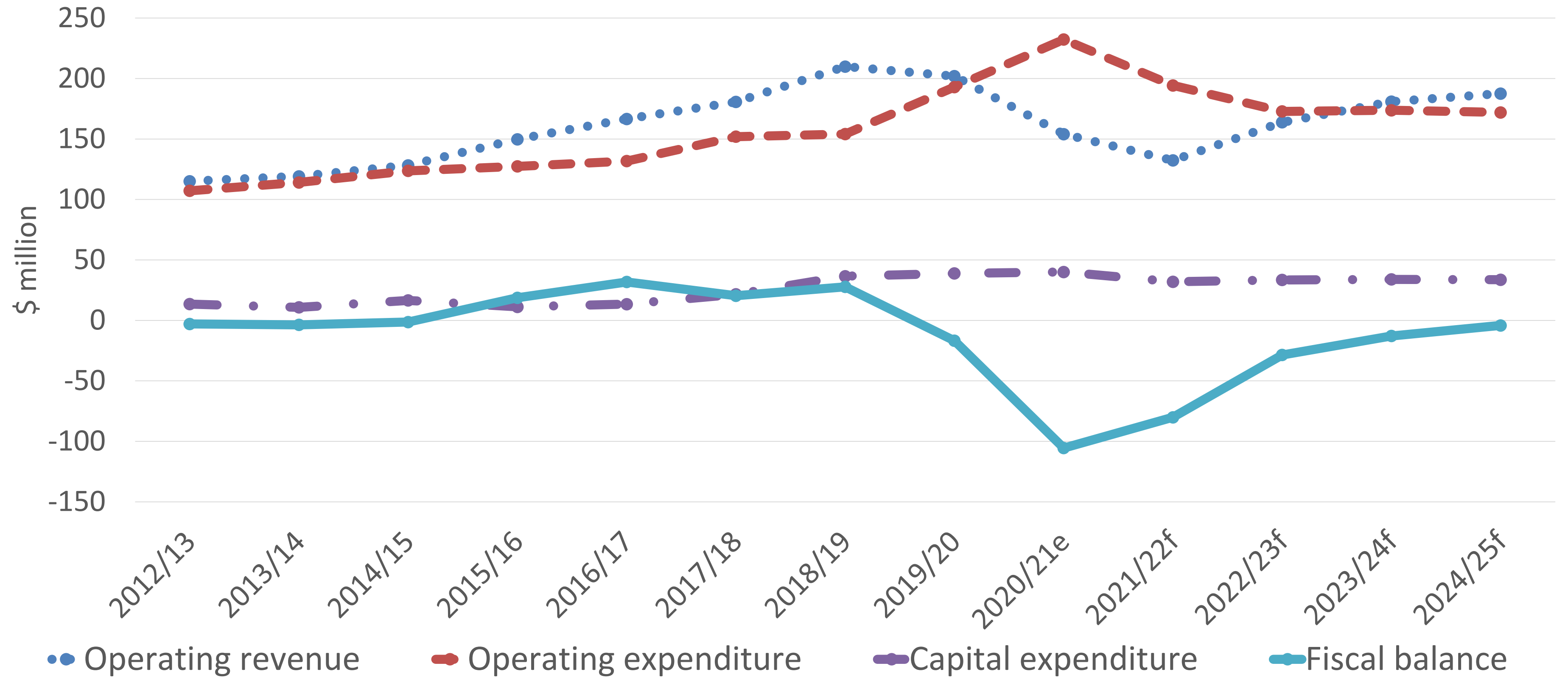


Key Financials – Medium-term

\$ million	2021/22	2022/23	2023/24	2024/25
Total Operating Revenue	132.3	163.9	180.9	187.6
Total Operating Expenditure	194.3	172.8	173.8	172.0
Operating Balance	-62.0	-9.0	7.2	15.6
Capital Expenditure	32.0	33.5	33.9	33.7
Fiscal Balance surplus/deficit	-80.1	-28.5	-12.9	-4.2
Financing Gap	0.0	36.5	27.6	21.6
Net Crown Debt, end of FY	211.1	202.9	188.1	168.5
Net Debt, % of GDP	48.9	41.2	35.6	30.3
Nominal GDP	431.3	492.0	528.0	555.5
% Change in GDP	8.8%	14.1%	7.3%	5.2%



Fiscal Outlook



Fiscal Rules

Rules	Threshold	2020/21 Actual	2021/22 Estimate	2022/23 Proj.	2023/24 Proj.	2024/25 Proj.
Total Expenditure Growth	+4%	24.1	-16.9	-9.6	1.5	-1.0
Net debt to GDP	30% / 35% GDP	41.9	48.9	41.2	35.6	30.3
Fiscal balance to GDP	-1.9% GDP	-26.6	-18.6	-5.5	-2.4	-0.7
Cash reserves	3 Months	1.9	0.1	0.0	0.0	0.0



Expenditure Statistics 2021/22

Government Financial Statistics (GFS)

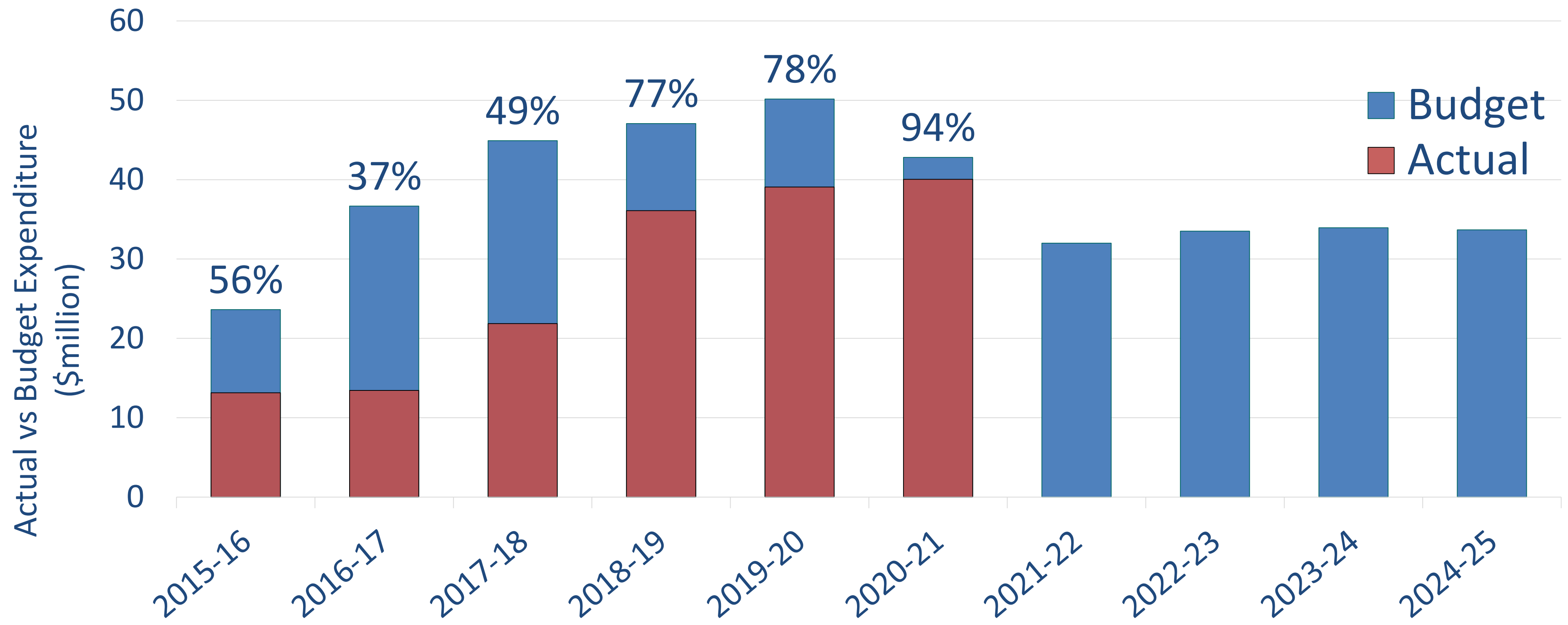
Compensation of Employees	34.0%	\$74.8m
Use of Goods and Services	38.2%	\$83.8m
Social Benefits	10.8%	\$23.6m

Classification of Functions of Government (COFOG)

Economic Affairs	37.6%	\$76.0m
General Public Services	25.0%	\$46.0m
Health	10.3%	\$24.6m
Social Protection	9.4%	\$23.6m
Education	7.6%	\$20.4m



Capital Expenditure



Capital Investments 2021/22

- Nassau Harbour (ICI)
- Manihiki Airport (ICI)
- Road Assets (ICI)
- Empire Bridge (ICI)
- Government Buildings on Rarotonga, Mangaia, Rakahanga (CIIC)
- Revenue Management System Upgrade (MFEM)
- Government IT Network (OPM - ICT)
- Streetlights for Mauke and Mitiaro (OPM – Renewable Energy)



Economic Recovery Roadmap

1. Reducing the cost of borrowing
2. Managing the burden of public debt
3. Infrastructure investment
4. Reducing barriers to competition and business
5. Productivity growth
6. Improving public sector efficiency
7. Growing the labour force and mitigating depopulation
8. Attracting foreign investment that will benefit the Cook Islands



Reducing the cost of borrowing

- The cost of finance (retail interest rates) is too high in the Cook Islands and a significant barrier to business sustainability and growth
- NZ interest rates are much lower even though we use the same currency
- Project already started working closely with the NZ Reserve Bank



Managing the burden of public debt

- Government has taken on substantial new debt through the crisis.
- The cost of servicing our public debt will be critical going forward and Government is working to ensure we minimise interest rates on our loans
- Ensure debt servicing levels are manageable over the foreseeable future



Infrastructure Investment

- Key infrastructure projects to boost the economy – Mei Te Vai Ki Te Vai, Rarotonga airport upgrade
- Target projects in the National Infrastructure Investment Plan (NIIP)
- Create jobs and income for Cook Islanders
- Replace predicted reduction in private sector investment over next five years



Reducing barriers to competition and business

- Reduce costs of doing business
- Reduce regulatory barriers to doing business (ie reduce red tape)
- Streamline process allowing for new entrants to the market
- Increase competition



Productivity growth

- Only through increased labour productivity can we expect better wages and salaries. This is true for the private and public sectors
- Investments in capital help raise labour productivity and therefore wages
- Investing in publicly funded education and training programmes to increase the supply of locally skilled workers and entrepreneurs



Productivity Growth - Diversification

- **Tourism** – an established and strong product
 - **Financial Products and Services** – a new trust product recently released
 - **Fishing** – work on enabling the sale of fishing days in other EEZ's
- **Seabed resources** – moving into the exploration phase
 - **Smart Grants** – \$2 million through the ERP
 - **Agri-tech Grants** – \$1 million through the ERP

It is usually the private sector that responds to market signals and innovates for new areas of economic activity, resulting in diversification.



Improving public sector efficiency

- Not smaller Government but more effective public sector
- Reduce overlapping responsibilities
- Improve service focus and efficiency (especially to private sector)
- Value for money for taxes and government charges



Growing the labour force and population

A key pillar will be a targeted approach to increasing the Cook Islands' population by 2%-5% per annum

- Develop strategies in partnership with the private sector
- Market the Cook Islands as an alternative and competitive high quality of life place to live and work
- Review the simplification of immigration requirements and barriers to entry to grow the resident population and labour force



Attracting foreign investment

- Allows the economy to grow while ensuring Cook Island ownership rights are protected
- Opens new industries and markets
- Contributes to economic recovery
- Expands business opportunities



Further on the ERR

Please refer to the MFEM website where the Ministry of Finance and Economic Management will be posting further information on the Economic Recovery Roadmap

