

Pre-election Economic and Fiscal Update

2021/22 Summary Report

This report provides an overview of the 2021/22 Pre-election Economic and Fiscal Update (PEFU). The PEFU provides an update on the state of the economy including government's associated fiscal and economic position since the publication of the 2021/22 Half-year Economic and Fiscal Update (HYEFU) in December 2021¹.

In accordance with part 2, section 17 of the Ministry of Finance and Economic Management (MFEM) Act 1995-96, the PEFU must be published no later than 14 days after the announcement of the polling day in relation to any general election of Members of Parliament pursuant to the Electoral Act 1966. The PEFU was published on 27 June 2022, and a full version of the 2021/22 PEFU is available online at www.mfem.gov.ck.

Key Fiscal Indicators

	2020/21 Actual	2021/22 HYEFU Estimate	2021/22 PEFU Estimate	2022/23 Projection	2023/24 Projection	2024/25 Projection
Statement of Financial Performance						
Total Operating Revenue (\$m)	161.9	175.5	173.7	167.7	178.2	183.5
<i>Of which: Taxation Revenue</i>	86.5	106.0	107.6	139.3	157.7	162.7
Total Operating Expenditure (\$m)	234.8	206.4	196.7	187.0	178.8	178.0
<i>Of which: Personnel</i>	69.7	74.8	69.5	76.4	76.7	76.8
Operating Balance (\$m)	-73.0	-30.9	-22.9	-19.4	-0.7	5.5
Percentage of GDP	-16.9	-6.3	-4.7	-3.4	-0.1	0.8
Capital Expenditure	30.0	37.8	27.8	34.2	18.3	15.9
Depreciation	12.7	13.9	13.1	13.8	13.8	13.8
Fiscal Balance surplus/deficit (\$m) *	-90.3	-54.8	-37.7	-39.8	-5.2	3.4
Percentage of GDP	-20.9	-11.3	-7.8	-7.0	-0.8	0.5
Statement of Financial Position (\$m)						
Working Capital (\$m)	53.6	42.8	62.4	16.9	1.4	-7.4
Working Capital (months coverage)	2.9	2.7	4.1	1.2	0.1	-0.5
Statement of Borrowings (\$m)						
Net Crown Debt, end of FY (\$m)	165.0	212.1	215.9	205.8	196.1	182.2
Net Debt, Percentage of GDP	38.2	43.5	44.6	36.3	31.1	28.0
Loan Repayment Reserves Held (\$m)	11.7	13.7	12.5	12.7	12.8	12.9
Development Partner Support (\$m)						
Grants (\$m)	21.6	53.8	31.3	91.5	19.6	11.2
Percentage of GDP	5.0	11.0	6.5	16.1	3.1	1.7

Fiscal Update Summary: For 2021/22, the fiscal balance is expected to improve from a fiscal deficit of \$54.8 million (reported in the 2021/22 HYEFU) to a \$37.7 million deficit due to a significant reduction in operating and capital expenditure. Operating and capital expenditure for 2021/22 were estimated to be at \$206.4 million and \$37.8 million respectively, but have been revised to \$196.7 million and \$27.8 million to reflect a more realistic spend of expenditure by the end of the 2021/22 fiscal year. The total amount of carry forwards approved for 2021/22 is \$9.2 million (\$3.4 million for operating expenditure and \$5.8 million for capital expenditure).

¹ The HYEFU is referenced rather than the 2022/23 Budget Estimates as the most recent publication reflecting 'actual' results. Both the PEFU and the 2022/23 Budget Estimates rely on the same data, but may show minor differences due to timing.

Changes to Revenue and Expenditure: Government revenues have decreased slightly compared to the HYEFU, from \$175.5 million to \$173.7 million. Total operating revenue consists of \$107.6 million in tax revenue and \$66.1 million in non-tax revenue.

Government expenditure for 2021/22 has reduced significantly compared to the HYEFU, mainly due to underspends in government agency operations. Actual expenditure by government agencies is generally lower than budget for a number of reasons including recruitment challenges, operational inefficiencies and timing issues due to external factors such as supply chain logistics affecting Government's ability to implement programmes.

Operating Balance: The operating balance is the net of operating revenue less operating expenditure. The 2021/22 operating balance is expected to improve by \$8.0 million, from an operating deficit of \$30.9 million (as estimated in the HYEFU) to a deficit of \$22.9 million. The operating balance is expected to improve to an operating deficit of \$19.4 million in 2022/23, a \$0.7 million deficit in 2023/24 before an operating surplus of \$5.5 million in 2024/25.

Fiscal Balance: The fiscal balance is forecast to reach a surplus of \$3.4 million in 2024/25, the same year a surplus for the operating balance is projected. The fiscal balance is primarily influenced by capital expenditure levels relative to the operating balance. Infrastructure investment offers strong economic benefits and a balance between fiscal balances and the economic benefit of capital expenditure is necessary, particularly where debt financing supports fiscal deficits.

Summary of Economic Indicators

	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26
	Actual	Estimate	Estimate	Projected	Projected	Projected
Economic Activity						
Nominal GDP (\$'000)	431,776	483,987	567,029	629,687	651,912	683,125
Percentage change (YOY)	-14.6	12.1	17.2	11.1	3.5	4.8
Real GDP (2016 prices, \$'000)	411,799	459,124	523,008	561,567	582,134	602,471
Percentage change (YOY)	-18.2	11.5	13.9	7.4	3.7	3.5
Inflation (CPI)						
Percentage change (YOY)	2.2	4.3	3.9	3.2	0.6	1.6
Construction/Capital Investment						
Value-added (\$'000)	15,410	11,012	12,730	14,260	14,923	15,631
Productive Sector Indicators						
Visitor Arrivals	7,538	50,341	121,402	165,583	169,978	170,911
Percentage change (YOY)	-93.9	567.8	141.2	36.4	2.7	0.6
Estimated Visitor Expenditures (\$'000)	18,310	92,789	229,290	312,926	321,229	322,967
Agriculture value-added (\$'000)	10,282	10,426	9,528	9,080	9,726	10,530
Fisheries value-added (\$'000)	1,460	1,480	1,352	1,289	1,381	1,495
External Sector						
Merchandise Trade Balance (\$'000)	-142,467	-150,238	-186,042	-212,080	-223,865	-232,821
Services Trade Balance (\$'000)	-313	73,717	205,865	286,005	293,209	294,292
Exchange Rate (USD/NZD Average)	0.69	0.69	0.68	0.69	0.68	0.68

Economic Update Summary: Recovery from the COVID-19 pandemic and associated recession is a key factor for the Cook Islands' immediate economic outlook. The recovery will be determined by how quickly visitor numbers return towards levels prior to the pandemic. With the Cook Islands border slowly opening to the world (through New Zealand) and public health restrictions easing, the signs of recovery are promising.

The fiscal stance for 2021/22 was expansionary due to the need to support economic stimulus measures through the Economic Recovery Roadmap (ERR). From 2022/23, government's fiscal stance is expected to move towards a more neutral stance as the economy returns to a more normal footing reducing the need for short-term stimulus. Across the forward estimates, the primary focus will be on long-term economic reforms and infrastructure projects that provide economic stimulus.

Inflation is a key variable of interest, with global pressures rising due to supply-line constraints and the impact on commodity markets from the war in Ukraine. This is expected to flow through to the Cook Islands, with higher inflation expected in the short-term as these global pressures are paired with constraints in the Cook Islands to push prices up. The 2021/22 fiscal year is expected to see price growth of 4.3 per cent, with 3.9 per cent in 2022/23 and 3.2 per cent in 2023/24.

Changes since the 2021/22 HYEPU: Given the finalisation of the 2021/ 22 HYEPU economic forecasts in November 2021, conservative assumptions were relied upon to estimate the return of tourists. Signs of positive development are showing for April 2022 onwards – including being open to non-New Zealand markets earlier than originally expected.

The minor differences between HYEPU and the PEPU are primarily caused by movements in world prices, in particular fuel, flowing through into the Cook Islands economy. These price increases will have the effect of suppressing economic activity slightly – particularly in domestic consumption.

Real GDP growth (percentage change, year on year)

	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26
2021-22 HYEPU Forecasts	-5.2%	-18.2%	11.8%	13.0%	8.7%	4.1%	3.5%
2021-22 PEPU Forecasts	-5.2%	-18.2%	11.5%	13.9%	7.4%	3.7%	3.5%