Government of the Cook Islands

Fiscal Strategy and Economic update: June 2019

Extract from Budget Book 1: 2019/20

4 June 2019

Prepared by the Economics Division, Ministry of Finance and Economic Management.

This report has been extracted from *Cook Islands Government Budget Estimates 2019/20: Book 1 – Appropriation Bill, Appropriations and Commentary* available for download at: http://www.mfem.gov.ck/images/MFEM_Documents/Treasury_Docs/Budget_Documents/2019-2023_Budget_Book_1_FINAL.pdf.

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1 Fiscal Strategy

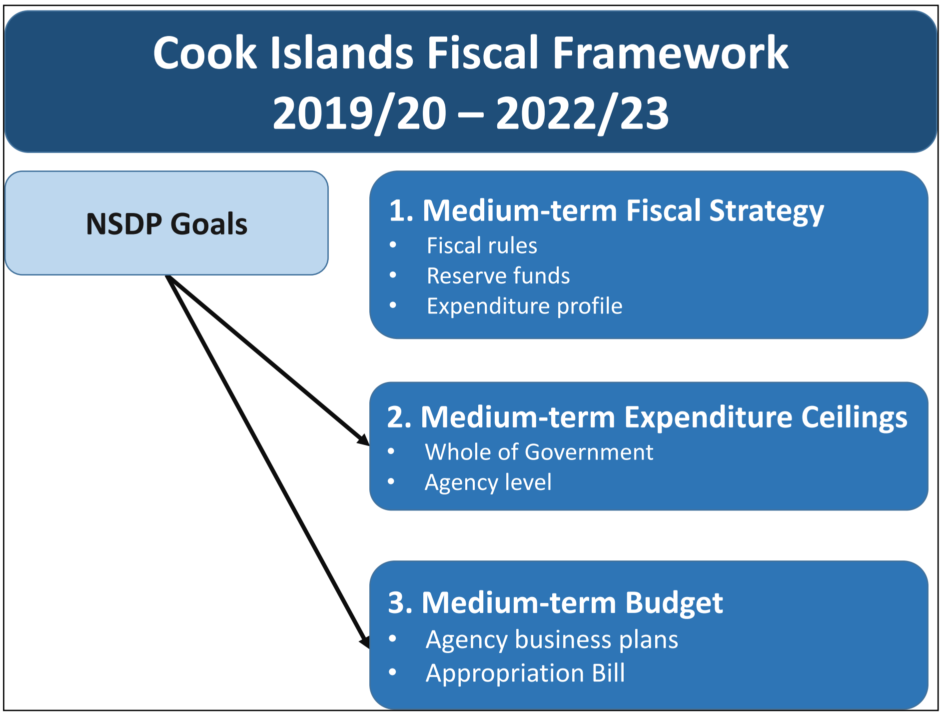
1.1 The Cook Islands Fiscal Framework 2019/20–2022/23

The Cook Islands Government launched its new medium-term fiscal planning and budget process, with the Cook Islands Fiscal Framework 2019/20–2022/23 (the Framework) in December 2018 in the 2018/19 Half-year Economic and Fiscal Update.[1]

The Framework is designed to strengthen the strategic focus of the Government's expenditure and tax decisions by incorporating a more robust medium-term perspective that takes into account interactions with the economy. The Framework has been established to achieve the following outcomes:

- improved long-term fiscal sustainability through responsible fiscal management and debt sustainability; and
- improved medium-term fiscal planning nationally, and within each agency.

Figure 1-1: Framework elements



[1] Available at: http://www.mfem.gov.ck/images/MFEM_Documents/Treasury_Docs/Budget_Documents/2018-19_Half_Year_Economic_and_Fiscal_Update.pdf.

The Framework comprises three cascading, interlinked elements, shown in Figure 1-1, that together result in a fiscally-responsible 4-year budget that takes account of the economic cycle:

- **Medium-term Fiscal Strategy** – provides the basis for the fiscal rules, the establishment of reserve funds for economic downturns, natural disasters, and future generations, and a Government expenditure profile guided by the economic context.
- **Medium-term Expenditure Ceilings** – guided by the MTFS, whole of Government expenditure ceilings for each of the 4 years are then divided into Agency ceilings, taking into account National Sustainable Development Plan 2016–20 (NSDP) goals and Agency capacity requirements.
- **Medium-term Budget** – Agency business plans that reflect individual ceilings, along with tax and economic forecasts, are used to prepare the medium-term budget – the appropriation estimates for 2019/20, and forecasts for three forward years to 2022/23.

The Framework has been implemented for the first time in the 2019/20 budget cycle. The first two elements of the Framework, and their application in this budget cycle are discussed below, with the third element, the Medium-term Budget, set out in Budget Book 1.[2]

1.2 Medium-term Fiscal Strategy

At the same time as the public launch of the Framework, the Ministry of Finance and Economic Management (MFEM) published a detailed paper on the Medium-term Fiscal Strategy (MTFS), which forms the base of the Framework.[3]

The MTFS aims to smooth Government expenditure over the course of the economic cycle. It sets out the Government's fiscal commitments over the medium-term, including the fiscal rules that the Government will aim to achieve, economic forecasts and in turn, the Government's expenditure profile.

The specific objective of the MTFS is to deliver fiscally sustainable budgets. To achieve this the Government has committed to:

- Adhere to the fiscal rules on debt, fiscal balance, expenditure growth and cash reserves.
- The development of, and appropriation into, reserve funds (Stabilisation Account and Sovereign Wealth Fund) to improve economic resilience.
- An expenditure profile that is guided by the economic context.

The Government's fiscal strategy is also underpinned by the following policy elements:

[2] Available at: http://www.mfem.gov.ck/images/MFEM_Documents/Treasury_Docs/Budget_Documents/2019-2023_Budget_Book_1_FINAL.pdf.

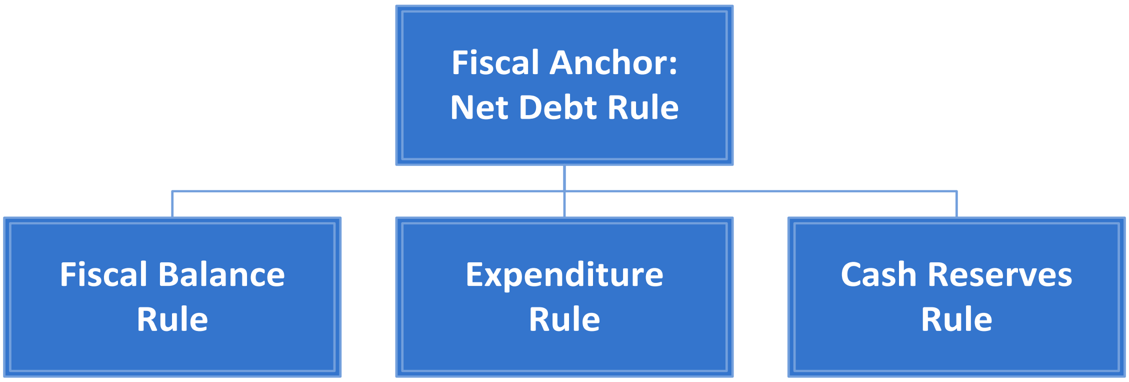
[3] Available at: http://www.mfem.gov.ck/images/CEO/Medium_term_Fiscal_Strategy_2019_23_-_Copy.pdf.

- 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.

The Government has committed to four MTFS fiscal rules, performance against which is publicly reported:

- **Net Debt Rule**: net debt should not exceed a soft cap of 30 per cent of Gross Domestic Product (GDP), and cannot exceed a hard cap of 35 per cent of GDP.
- **Fiscal Balance Rule**: the fiscal balance cannot exceed a deficit of 1.9 per cent of nominal Gross Domestic Product (GDP).
- **Expenditure Rule**: budgeted expenditure cannot grow by more than 4 per cent year-on-year.
- **Cash Reserves Rule**: the equivalent of 3 months of operating expenditure must be held in cash at any one time.

Figure 1-2: MTFS rule structure



The Government has also committed to a number of operational MTFS guides:

- Personnel ratio – expenditure on personnel less than 40 per cent of total Government revenue.
- Requirement to spend cash – no new debt commitments where the Government has sufficient cash to fund the relevant expenditure.
- Cyclically-adjusted balance – use of the cyclically-adjusted balance as a benchmark when developing the total expenditure ceiling to disconnect spending from cyclical revenues and allowing governments to maintain expenditure during downturns.
- Stabilisation Account – cash in excess of 4 months of operating expenditure at the end of the financial year transferred to the Stabilisation Account at the beginning of the next year. (An additional 1 month to the 3 months expenditure rule is retained as a buffer).

1.3 Performance against the fiscal rules

The 2019/20 budget meets all the fiscal rule thresholds over the 4-year period.

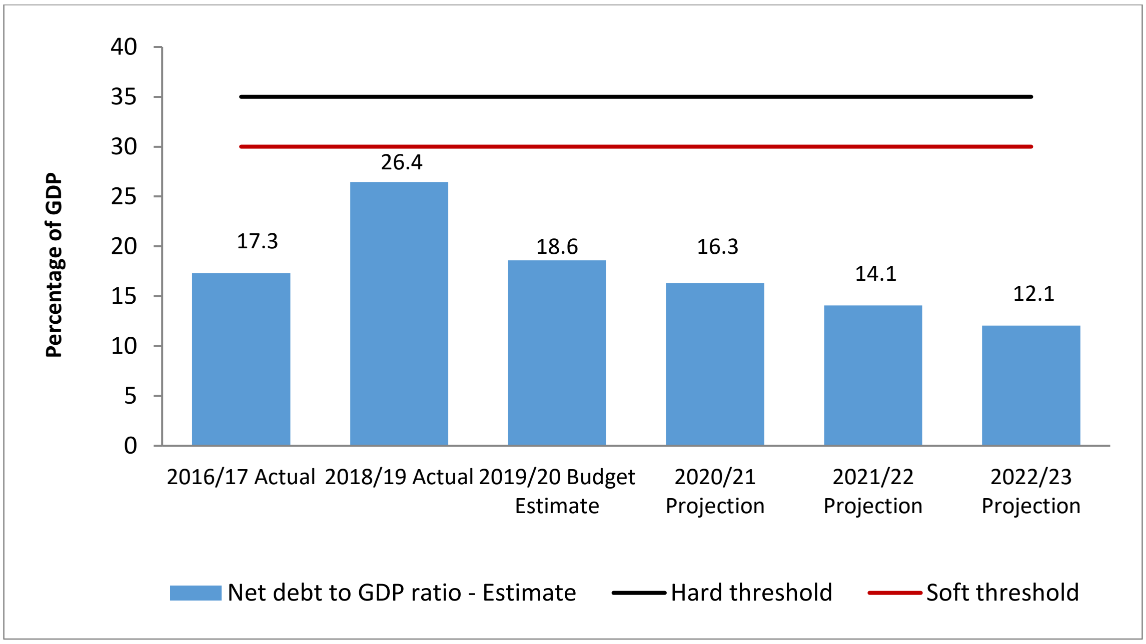
1.3.1 Net debt rule

Net debt (taken here to be gross debt obligations, net of the funds in the Loan Repayment Fund) to GDP measures the level of debt relative to national income, and is intended to control the overall level of debt taken on by Government, including State-owned Enterprises (SOE). The limit agreed to by Government is to maintain net debt within a hard target of 35 per cent of GDP. This would represent total borrowings of around $204 million in 2019/20. The Government remains well within the net debt benchmark.

Figure 1-3 shows the 30 per cent soft debt target that the Government is committed to staying below, which is equivalent to approximately $174 million in 2019/20. This ensures that there is at least 5 per cent of GDP available in debt financing should there ever be a major economic or natural disaster before the Government breaches the voluntary debt limit. As at June 2020, it is expected that Government will have a net debt ratio of approximately 18.6 per cent, well within the debt benchmarks.

Debt levels are expected to further improve over the forward estimates to 12.1 per cent of GDP by 2022/23.

Figure 1-3 Net debt to GDP ratio, 2016/17 to 2022/23

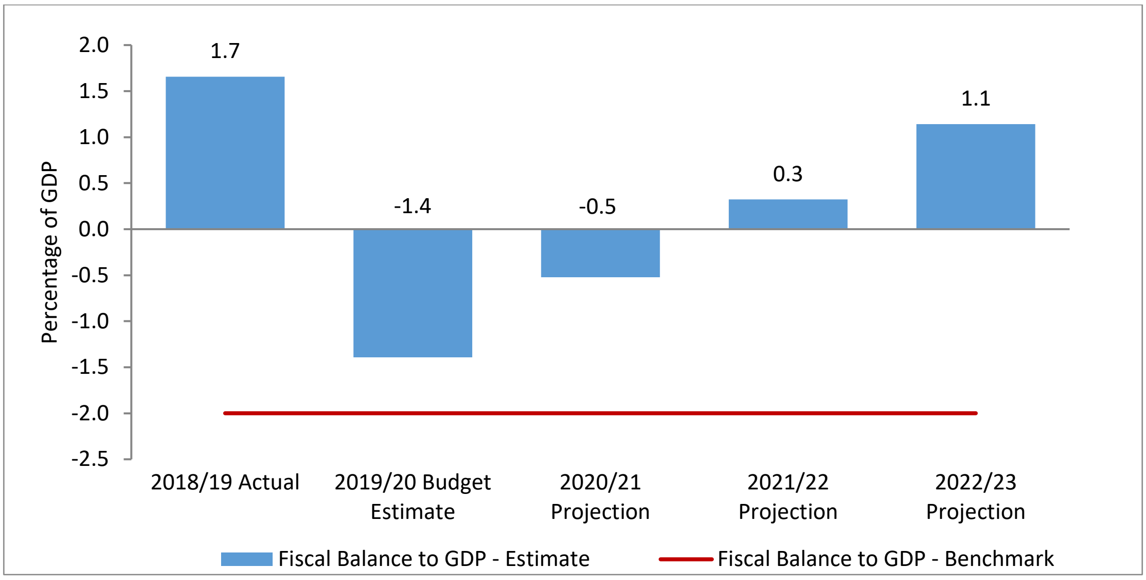


1.3.2 Fiscal balance rule

The fiscal balance is the operating balance less net capital expenditure (total capital expenditure less depreciation). Where the fiscal balance is in deficit, it must be serviced through lending or a drawdown of reserve funds. The rule states that the fiscal balance cannot exceed a deficit of 1.9 percent of GDP to ensure that Government does not accumulate debt too quickly, and taken together with the net debt to GDP rule, ensures that debt is managed and taken on within sustainable levels.

As Figure 1-4 illustrates, the Government's expected fiscal balances for 2019/20 is a deficit of 1.4 per cent of GDP, well within the benchmark. The fiscal balance is expected to improve over forward estimates to a surplus of 1.1 per cent of GDP in 2022/23.

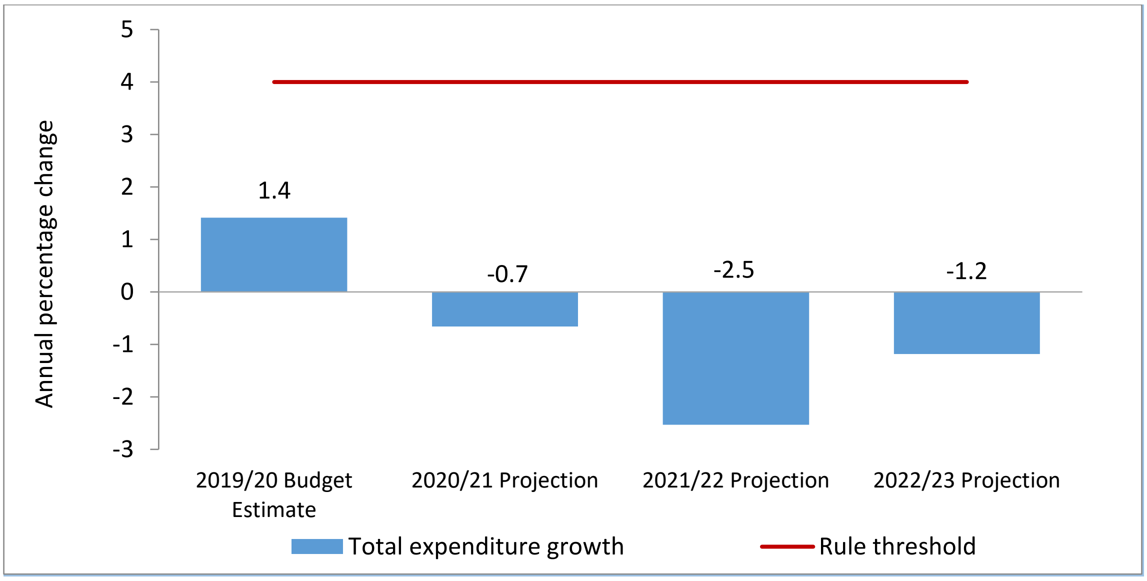
Figure 1-4: Fiscal balance to GDP, 2018/19 to 2022/23



1.3.3 Expenditure rule

The expenditure rule, introduced for the first time in the 2019/20 Budget, controls Government expenditure, operating and capital, by limiting year-on-year growth to a maximum of 4 per cent. As shown in Figure 1-5, the expenditure profile in 2019/20 and over the forward estimates is well within the threshold.

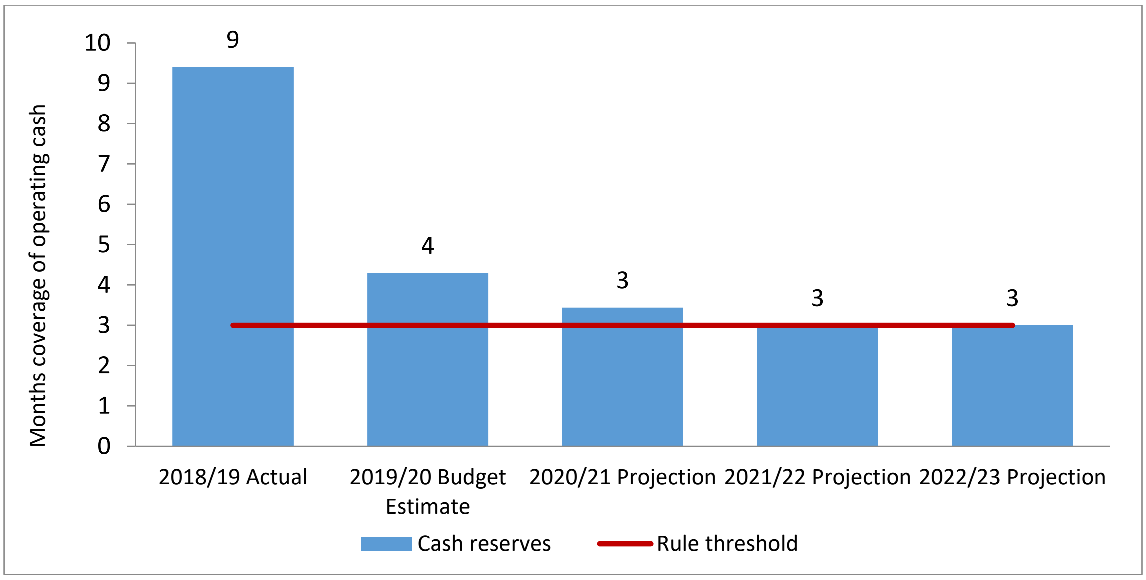
Figure 1-5: Expenditure growth, 2019/20 to 2022/23



1.3.4 Cash reserves rule

For prudential reasons, the Government requires a level of cash reserves to be on hand at all times, to act as a buffer in case of a liquidity shortage. For example, if a large cyclone were to impact Rarotonga, and cause a halt to tax collections, the Government would require a level of cash to be held in reserve to cover this scenario. A prudent level of cash reserves is considered to be three months of operating expenditure, either available as cash or liquid cash investments. Figure 1-6 shows that the Government is currently in a strong position to support any liquidity shortage should it be required.

Figure 1-6: Cash reserves to operating expenditure, 2018/19 to 2022/23



1.4 Establishment of reserve funds

With a view to improving the fiscal resilience of the Cook Islands against economic shocks and natural disasters, and collecting revenues from seabed minerals harvesting for future generations, the Government has committed to establishing two reserve funds under the MTFS.

1.4.1 Stabilisation Account

The first is the Stabilisation Account, which holds excess cash and will be used to make additional debt repayments in periods of strong economic growth, and to cover operational and capital expenditure during periods of economic contractions.

The Stabilisation Account has been set up in the 2019/20 budget, with $56.7 million of the $115.5 million unencumbered cash estimated as at 1 July 2019.

To guide the administration of the account, MFEM has drafted a Stabilisation Account Policy. This sets out clear rules around transfers into and out of the account, along with investment strategies for managing the funds in the account.

Once a minimum balance, which will initially be set at $25 million, has been reached in the Stabilisation Account, the funds can be used to make additional repayments on current debt during periods of real economic growth greater than 4 per cent per year. The decision to make additional repayments, as opposed to maintaining funds in the Stabilisation Account will be guided by a Debt Management Strategy to be developed in 2019.

During periods of real economic contraction, defined as growth less than 1 per cent per year, funds can be drawn from the Stabilisation Account to fund government operations and investment, however the use of the funds must not result in a breach of the MTFS fiscal rules.

1.4.2 Sovereign Wealth Fund

The second reserve fund is a Sovereign Wealth Fund which will capture the revenues expected in the future from seabed minerals harvesting for use by future generations. The fund will be scoped and established in concert with the development of the seabed minerals sector.

1.5 Medium-term expenditure ceilings

A medium-term expenditure profile, effectively a Government budget ceiling for each year of the 2019/20 budget cycle, that is both consistent with the fiscal rules and the economic context, was announced in the MTFS. Table 1-1 shows the profile, along with the fiscal space, indicating the amount of additional expenditure that the Government can undertake in each year compared to the respective forward estimates set out in the 2018/19 Budget.

Table 1-1: Expenditure profile performance

$ million	2019/20	2020/21	2021/22	2022/23
Total expenditure – MTFS planned	206.3	204.8	205.2	205.2
Fiscal space	8	23	40	40
Total expenditure – 2019/20 Budget	210.7	209.3	204.0	201.6
Under (+)/ Over (-)	2%	2%	0%	-2%

In determining the recommended expenditure profile for the MTFS, MFEM considered two fiscal space measures, both consistent with the MTFS fiscal rules: the structural deficit ceiling approach, which estimates the difference between the structural fiscal balance and nominal fiscal balance, and the cyclically-adjusted balance method, which accounts for the effects of business cycle fluctuations on revenue and expenditure. MFEM then adopted a ceiling which provided a fiscally responsible level of fiscal space, while acknowledging the investment needs of the country.

The total expenditure estimates contained in the 2019/20 Budget are slightly higher than the announced ceilings for 2019/20 and 2020/21, as shown in Table 1-1. This expenditure remains consistent with the fiscal rules, as shown in section 1.3, with the minor increase reflecting the need to invest in improving the productive capacity of both the economy and the Government over the next four years:

- investing in infrastructure that will ensure the sustainability of economic growth and the resilience of the economy to climate change; and
- investing in the capabilities of Government Agencies to ensure that they are operating effectively and efficiently.

To guide the development of medium-term expenditure ceilings for each Government Agency within the overall ceiling, MFEM commissioned a Government-wide public expenditure review (PER). The focus of the review was on the efficiency and effectiveness of Government Agencies in meeting their National Sustainable Development Plan goals. This information in turn informed the budget allocations for 2019/20 to 2022/23 that are presented in Budget 2019/20.

Table 1-2: Aggregate ceiling breakdown, $ million

Category	**2019/20**	**2020/21**	**2021/22**	**2022/23**
Baseline*				
Ministries	106.1	104.2	104.2	104.2
Pa Enua	10.1	10.1	10.1	10.1
Ministerial Support	2.2	2.2	2.2	2.2
Baseline - Total	*118.4*	*116.5*	*116.6*	*116.6*
Operating Adjustment				
Ministries	5.0	10.5	14.2	14.5
Pa Enua	.6	1.3	1.3	1.3
Ministerial Support	.3	.3	.3	.3
Depreciation	2.1	2.1	2.1	2.1
Administered Payments	7.1	6.4	7.2	4.9
Operating Adjustment - Total	15.2	20.7	25.1	23.2
New Total Operating Baseline	*133.5*	*137.2*	*141.7*	*139.7*
POBOC				
Baseline	26.2	26.2	26.2	26.2
Adjustments	1.5	1.7	1.6	1.7
POBOC Total	27.7	27.9	27.8	27.9
Capital	40.4	35.5	26.1	25.5
Other	9.1	8.8	8.6	8.6
Total	**210.7**	**209.3**	**204.0**	**201.6**

* Includes Personnel, Operating, Administered Payments and Depreciation

The resulting allocation of the budget ceiling is shown in Table 1-2. This highlights in particular the adjustments to baseline operating expenditure for Agencies, Ministerial support and the Pa Enua, Administered payments and Payments on behalf of the Crown (POBOC).

1.6 Medium-term national priorities

The medium-term expenditure ceiling has been allocated across a range of National Sustainable Development Plan 2016–20 (NSDP) goals, as agreed by Government at the November 2018 Cabinet Retreat.

The priority goals for each year of the 2019/20 Budget and forward estimates is shown in Figure 1-7. The medium-term focus is on investing in infrastructure (Goal 5: Build resilient infrastructure and ICT to improve our standard of living) and climate change resilience (Goal 13: Strengthen resilience to combat the impacts of climate change and natural disasters). These two goals are priorities for 2019/20 and each of the forward estimate years.

Figure 1-7: Medium-term NSDP goal priorities

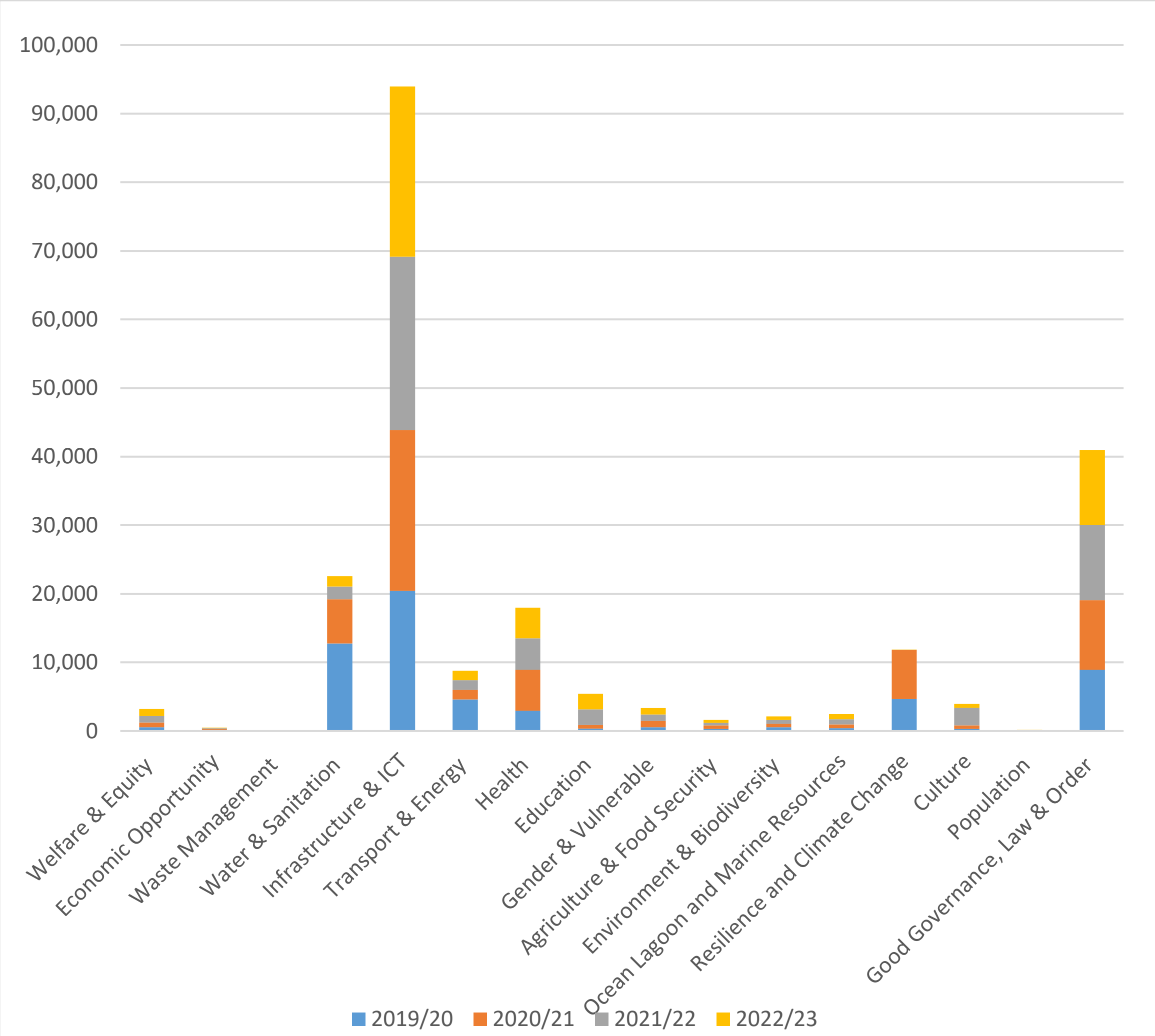
2019/20	2020/21	2021/22	2022/23
Goal 9: Gender & the Vulnerable	**Goal 8: Education**	**Goal 3: Waste Management**	**Goal 1: Welfare & Equity**
Goal 16: Good Governance, Law & Order		**Goal 6: Transport & Energy**	**Goal 2: Economic Opportunities**
Goal 7: Health		**Goal 12: Ocean Lagoon and Marine Resources**	**Goal 15: Population**
Goal 13: Resilience and Climate Change			
Goal 11: Environment & Biodiversity	**Goal 10: Agriculture & Food Security**	**Goal 14: Culture**	**Goal 7: Health**
Goal 5: Infrastructure & ICT			
Goal 4: Water & Sanitation			**Goal 8: Education**

A summary of the new expenditure initiatives by priority goal for 2019/20 is outlined below in Table 1-3 and Figure 1-8. This covers all funding for capital projects and new funding allocated into operating (i.e. existing operating baselines are not considered here). A total of $219 million is allocated towards capital and new operating funding initiatives across the medium-term.

Table 1-3 Summary of Operating and Capital Initiatives ($'000)

Goal	Summary of New Initiatives	2019/20	2020/21	2021/22	2022/23	Total	%
1	Welfare & Equity	549	684	939	1,024	3,196	1.5%
2	Economic Opportunity	200	100	111	111	522	0.2%
3	Waste Management	0	0	0	0	0	0.0%
4	Water & Sanitation	12,772	6,430	1,855	1,500	22,557	10.3%
5	Infrastructure & ICT	20,474	23,415	25,265	24,815	93,969	42.9%
6	Transport & Energy	4,616	1,396	1,396	1,396	8,805	4.0%
7	Health	2,976	5,980	4,580	4,480	18,016	8.2%
8	Education	390	510	2,269	2,269	5,437	2.5%
9	Gender & Vulnerable	536	958	939	940	3,374	1.5%
10	Agriculture & Food Security	340	490	390	390	1,610	0.7%
11	Environment & Biodiversity	542	537	537	537	2,152	1.0%
12	Ocean Lagoon and Marine Resources	400	590	740	740	2,470	1.1%
13	Resilience and Climate Change	4,650	7,150	50	50	11,900	5.4%
14	Culture	330	525	2,548	548	3,951	1.8%
15	Population	50	50	50	50	200	0.1%
16	Good Governance, Law & Order	8,955	10,093	11,008	10,913	40,969	18.7%
	Total	**57,779**	**58,908**	**52,677**	**49,763**	**219,128**	**100%**

Figure 1-8: Summary of Expenditure by 2019/20 goals, 2019/20 – 2022/23



Note that the allocation of funding into goals is quite subjective. Individual projects and funding initiatives will often have a benefit across multiple goals at any time, such an analysis is not practical here, and hence projects and funding initiatives are assigned to a single goal in each case:

- **Goal 4 – Water and Sanitation** - 10 per cent of the total, is largely the result of two legacy water and sewerage projects which are mid-construction or project planning; Te Mato Vai and Mei Te Vai Ki Te Vai.
- **Goal 5 – Infrastructure and ICT -** 43 per cent of the total, include a significant ramp up in road and sea transport infrastructure and drainage capital projects.
- **Goal 7 – Health** - Funding to enable hiring and retention of specialist medical staff and a CT Scanner to improve primary diagnosis and care within the Cook Islands.
- **Goal 13 – Resilience & Climate Change** - Primarily composed of new Cyclone Centres for the Pa Enua.
- **Goal 16 – Governance, Law and Order** - accounts for 19 per cent of the total spend. This includes substantial new operating funding for Ministry of Justice to increase

personnel and thereby improve systemic efficiency, funding for the Cook Islands Police Service to improve wages and hiring capacity, and Ministry of Corrective Services to strengthen the prison and probation services. Operating shortfalls which have been restricting the ability of government agencies to deliver effectively have also been funded across the whole of government.

1.7 Medium-term fiscal outlook

The Cook Islands has continued the strong run of economic growth seen in recent years, generating a stream of Government revenue that has increased at a faster rate than Government expenditure, providing a sound fiscal basis for the 2019/20 Budget. A strong fiscal position makes the Cook Islands more resilient to future economic shocks and natural disasters.

Figure 1-9 shows a time series of general Government operating revenue and expenditure from 2012/13 to 2018/19, with forecast data included for the medium-term. The chart shows that, on average over the last six years, Government operating revenues have been rising at a slightly faster rate (9 per cent) than operating expenditure (8 per cent). From 2012/13 to 2014/15, the net operating balance averaged $5.8 million. This compares to an average of $29.1 million over the last four years, a 5-fold increase.

Figure 1-9 Medium-term fiscal outlook ($'000)

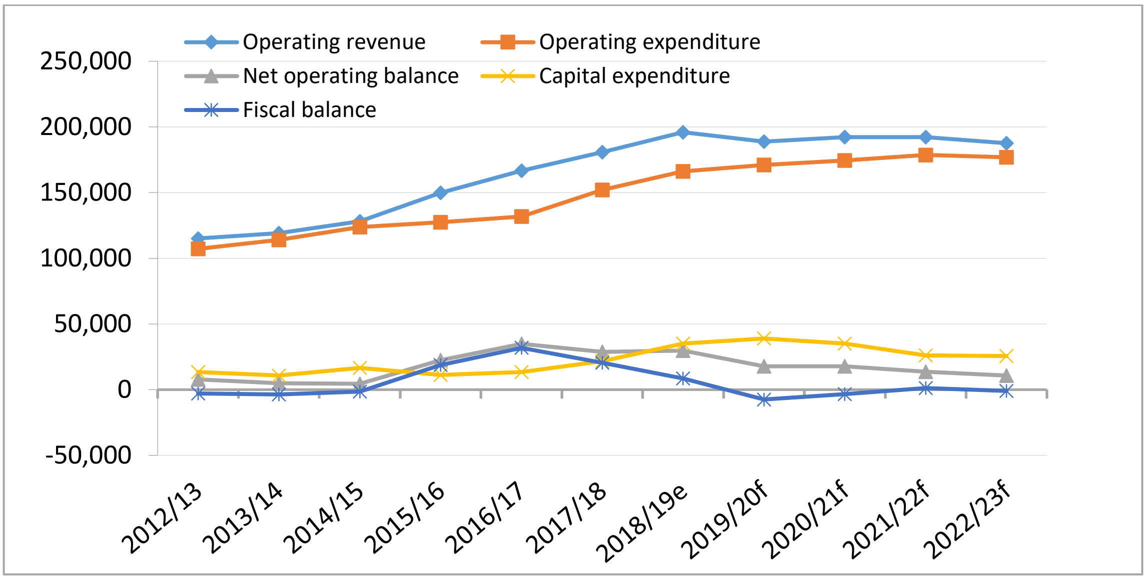


Figure 1-9 also shows capital expenditure and the Government's fiscal balance, which is the net operating balance minus capital expenditure plus depreciation. Expenditure on capital projects has risen, rising from an average of $13.6 million from 2012/13 to 2014/15, to $20.4 million over the last four years. This reflects expenditure on a number of large capital projects, such as renewable energy in the Pa Enua, Te Mato Vai and Tereora College.

The fiscal balance has risen from an average of -$2.6 million from 2012/13 to 2014/15, to $21.1 million over the last four years.

2 Economic Update

2.1 Summary

2.1.1 Performance

The Cook Islands economy has continued the strong run of real economic growth it has experienced in recent years, averaging 4.4 per cent per year over the period 2011/12 to 2017/18, thanks to unprecedented tourism arrivals and higher levels of public and private capital investment. In 2017/18, real Gross Domestic Product (GDP) growth of 8.9 per cent was recorded, rising from $463.2 million to $504.5 million.

Over the last three years, tourist arrivals have risen by an average of nearly 11 per cent per year, from 121,772 in 2014/15 to 164,800 in 2017/18. July 2018 saw the most visitors the Cook Islands has ever seen, with 18,332 arrivals. More recent data shows the strong growth in tourist arrivals tailing off to more realistic levels. The tourism market only saw growth of 3 per cent in the year to March 2019, with visitor arrivals rising from 162,650 to 167,262 over this period.

The value of residential and commercial (commercial, tourism and community buildings) building approvals has also been much higher than trend in the three years to 2017/18. Despite more recent data showing a substantial decline, about 46 per cent, in the year to December 2018 compared to the year to December 2017, the value remains well above trend.

Residential approvals, most likely for holiday houses rather than residential living, driven by tourism growth, now dominate the total value, following the completion of a number of large community projects.

There are clear indications that this strong economic performance is likely to result in the graduation of the Cook Islands from the Organisation for Economic Cooperation and Development's (OECD) Official Development Assistance (ODA) eligibility list from January 2020. Work undertaken by the Statistics Office to develop comprehensive balance of payments data has been used to determine the Cook Islands' Gross National Income for the last three years. This data will be used by the Organisation of Economic Development and Cooperation (OECD) to determine whether the Cook Islands has reached the level of economic development required to graduate to 'high income status' at the July 2019 meeting of its Development Assistance Committee.

Further analysis by the Government suggests that the Cook Islands economy continues to perform above its potential level – that is the Cook Islands continues to face a positive output gap. While there is little sign of the economy overheating in the leading economic indicator, the Consumer Price Index, there are increasing signs of capacity constraints emerging in the labour and housing markets, and the construction sector.

2.1.2 Outlook

In summary, the outlook for Cook Islands economy is positive, albeit at lower levels than seen in recent years. Real growth of 6.3 per cent is estimated in 2018/19, falling to 3.8 per cent in 2019/20, with average annual growth over the 4-year forward period at 3.9 per cent. The slowdown is due to continued but much slower growth in tourism and investment, both public and private.

With a mildly expansionary fiscal stance over the forward budget period, the capacity constraints alluded to above are expected to tighten in the medium-term. Further pressure on the domestic housing market is likely, potentially with wage-price pressure flowing from an increasing shortage of skilled workers and an increase in the minimum wage in 2019/20 from $7.25 to $7.60 per hour. Along with imported inflation should the New Zealand dollar depreciate further, this is expected to result in inflation rising from an estimated minus 0.4 per cent in 2018/19 to 1.1 per cent in 2019/20 before rising further to about 1.8 per cent per year over the forward budget period.

Table 2-1 provides a summary of the key indicators for the budget appropriation year and the three forward years of the 2019/20 budget cycle.

Table 2-1 Summary of Economic Indicators

	2017/18 Actual	2018/19 Estimate	2019/20 Projected	2020/21 Projected	2021/22 Projected	2022/23 Projected
Economic activity						
Nominal GDP ($'000)	516,316	557,913	581,385	607,445	635,233	664,524
Percentage change (year on year)	13.0	8.1	4.2	4.5	4.6	4.6
Real GDP (at constant 2016 Prices, $'000)	504,453	536,225	556,858	578,103	600,852	624,870
Percentage change (year on year)	8.9	6.3	3.8	3.8	3.9	4.0
Inflation (CPI)						
Percentage change (average over year)	0.4	-0.4	1.1	1.6	1.8	1.8
Construction/capital investment						
Commercial building approvals ($'000)	7,968	7,465	7,465	7,465	7,465	7,465
Residential building approvals ($'000)	11,993	13,308	12,656	12,656	12,656	12,656
Productive sector indicators						
Visitor arrivals	164,800	166,209	169,997	174,625	178,325	181,845
Percentage change (YOY)	6.2	0.9	2.3	2.7	2.1	2.0
Agriculture value-added ($'000)	10,641	10,446	10,446	10,446	10,446	10,446
Fisheries value-added ($'000)	1,484	1,529	1,529	1,529	1,529	1,529
External sector						
Merchandise trade balance ($'000)	-190,678	-196,722	-200,560	-205,286	-209,419	-209,419
Exchange rate (USD/NZD average)	0.71	0.66	0.67	0.68	0.70	0.71

2.2 Assumptions underlying the economic and fiscal projections

Various assumptions have been made to forecast the Cook Islands economic outlook and the Government's fiscal performance and position in the outer years.

2.2.1 Economic

Introduction

The Cook Islands Statistics Office publishes current price and real price (2016 base year) estimates of GDP on quarterly basis, using the production approach. GDP production estimates are disaggregated by major industry classifications, including institutional sectors. The latest data from the Statistics Office is for the September Quarter 2018.

The Government has relied on an econometric time series model to forecast GDP, generating estimates of GDP production for 2018/19, and forecasts for the 4-year forward budget period from 2019/20 to 2022/23.

The aggregate and component outputs of the GDP model are presented below.

GDP production model

A time series ARIMA modelling approach was used to forecast aggregate GDP production, in real terms. A combination forecasting method has been adopted, utilising a range of quarterly time series models, multivariate and univariate. Nominal forecasts are then derived by applying an implicit GDP price deflator, derived using time series forecasts over the forward period. For more detailed information on the time series model, see Cook Islands time series economic forecasting model: Working Paper No. 18/1, available on the MFEM website.

The GDP forecasts assume historical trends in government expenditure, rather than current policy commitments.

Data

The key data sets used for the model are:

- Real and nominal GDP – quarterly data to September 2018;
- Trade, imports and exports – quarterly data to December 2018;
- CPI – quarterly index data to March 2019;
- International arrivals – Customs and Immigration monthly data to March 2019;
- Building approvals – quarterly data to December 2018;

Key economic indicator assumptions

Nominal GDP is expected to grow by (see Chapter 5 for more detail):

- 8.1 per cent in 2018/19.
- 4.2 per cent in 2019/20.
- 4.5 per cent in 2020/21.
- 4.6 per cent in 2021/22.
- 4.6 per cent in 2022/23.

Growth in prices, measured through movements in the CPI, and forecast using an econometric time series approach, is expected as follows:

- 0.4 per cent in 2018/19.
- -0.4 per cent in 2019/20.
- 1.1 per cent in 2020/21.

- 1.6 per cent in 2021/22.
- 1.8 per cent in 2022/23

2.2.2 Fiscal

The Government's expected fiscal performance over the forward period is based on the following assumptions:

- operating revenues are forecast on the basis of recent trends in economic activity, the economic forecasts set out in Chapter 5, and one off considerations;
- operating expenditure movements reflect current Government policy commitments; and
- the level of Government borrowing is based on exchange rates from Consensus Economics forecasts.

2.3 The global economy

The Cook Islands is a small, open economy whose economic growth is heavily reliant on the export of goods and services to a number of key partner countries, New Zealand, Australia and the United States of America in particular. As such, it is necessary to examine the economic conditions and outlook for our key partners, as well as the regional and global economy.

New Zealand

In its May 2019 Monetary Policy Statement, the Reserve Bank of New Zealand (RBNZ) reduced its official cash rate from 1.75 per cent to 1.5 per cent, citing a need for an easier monetary policy stance thanks to a more subdued outlook for employment growth along with low inflationary pressure.

The RBNZ noted that domestic growth has slowed from the second half of 2018, from 3.2 per cent in the June quarter to 2.3 per cent in the December quarter, as a result of slower growth in household spending due to lower population growth and continuing house price softness in some areas. In addition, the RBNZ identified ongoing low business sentiment, tighter profit margins, and competition for resources restraining investment. Moreover, although employment is close to its maximum sustainable level, the RBNZ reports that the outlook for employment growth is more subdued, with capacity pressure expected to ease slightly in 2019. Consequently, the RBNZ expects inflationary pressure to rise only slowly.

The RBNZ also cited concerns about slowing global economic growth since mid-2018, easing demand for New Zealand's goods and services, along with uncertainty about the global outlook.

Australia

In its May 2019 Statement on Monetary Policy, Reserve Bank of Australia (RBA) chose to leave the cash rate unchanged at 1.5 per cent, where it has been since August 2016.

The RBA reports that Australian GDP growth is expected to be around 2¾ per cent over both 2019 and 2020, lower than previously forecast, reflecting subdued growth in household consumption spending and dwelling activity. Stronger growth in exports and, further out, work on new mining investment projects are expected to support growth. The RBA expects inflation to be lower than previously forecast, at around 1¾ per cent over 2019, increasing gradually to 2 per cent in 2020 and a touch above 2 per cent by early 2021.

Conditions in the Australian housing market have continued to ease. The RBA reports that established housing prices in Sydney, Melbourne and Perth are down by around 3 per cent since the February 2019 Monetary Policy Statement and are around 10 per cent lower over the past year. To put this in context, the RBA noted that capital city housing prices have now retraced to mid-2016 levels but remain 15 per cent higher than five years ago.

Looking forward, the RBA highlighted concerns for global growth resulting from trade growth remaining subdued due to the decline in Chinese domestic demand growth and increasing levels of trade protectionism, particularly for trade-exposed economies. The RBA warned that although global financial conditions have become more accommodative since the start of the year, increasing trade tensions and other political risks could lead to tighter financial conditions.

May 2019 saw the latest round in the bilateral trade war between the United States and China with the United States more than doubling tariffs on US$200 billion of Chinese imports. The Chinese Government responded by announcing it will raise tariffs on US$60 billion of United States goods from 1 June 2019.

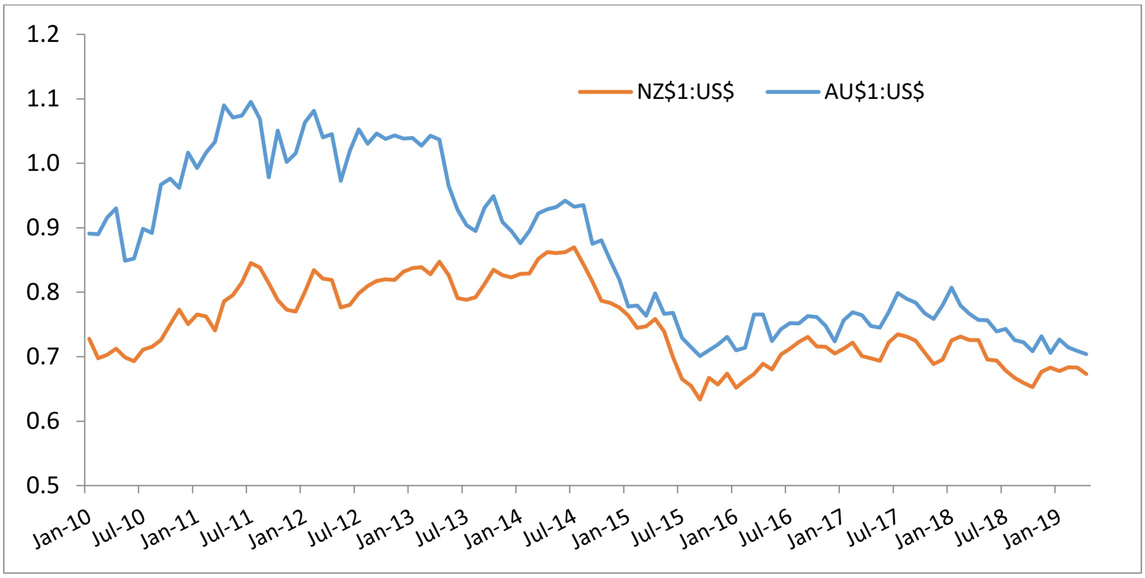
United States

The International Monetary Fund's (IMF) World Economic Outlook April 2019 expects United States' GDP growth to fall from 2.9 per cent in 2018 to 2.3 per cent in 2019, before moderating slightly to 1.9 per cent in 2020 with the unwinding of fiscal stimulus. The downward revision to 2019 growth reflects the impact of the government shutdown and lower fiscal spending than previously anticipated, while the modest upward revision for 2020 reflects a more accommodative stance of monetary policy than in the IMF's October 2018 forecast. Despite the downward revision, the IMF notes that the projected pace of expansion for 2019 is above the US economy's estimated potential growth rate.

In May 2018, the US Federal Reserve (the Fed) maintained its target benchmark rate of 2¼ to 2½ per cent on the basis that this will enable the sustained expansion of economic activity, strong labour market conditions, and inflation near the Committee's symmetric 2 per cent objective. The Fed also indicated that in light of global economic and financial developments and muted inflation pressures, it will take a cautious approach to any future adjustments to the target range.

The higher US interest rates have led to a broad-based appreciation of the US dollar, including against commodity currencies such as the Australian and New Zealand dollars. Figure 2-1 shows the steep decline in the New Zealand dollar from 73.1 cents in February 2018 to 65.3 cents in October 2018, followed by a rally to 67.3 cents by April 2019.

Figure 2-1: US dollar exchange rate, New Zealand and Australia



Asia Pacific

The Asian Development Bank (ADB), in its April 2019 Asian Development Outlook, expects regional GDP growth to soften to 5.7 per cent in 2019 and 5.6 per cent in 2020. Following inflation rising in 2018 thanks to oil prices rising and Asian currencies depreciating, the ADB expects inflation to remain subdued at 2.5 per cent in both 2019 and 2020 as a result of stable commodity prices.

The ADB notes that risks remain tilted to the downside, citing the trade conflict between the US and China, uncertainties stemming from US fiscal policy and a possible disorderly Brexit, potentially undermining investment and growth in developing Asia. The ADB also highlighted the perennial disaster risk from natural hazards, recommending that Governments integrate disaster risk reduction into national development and investment plans.

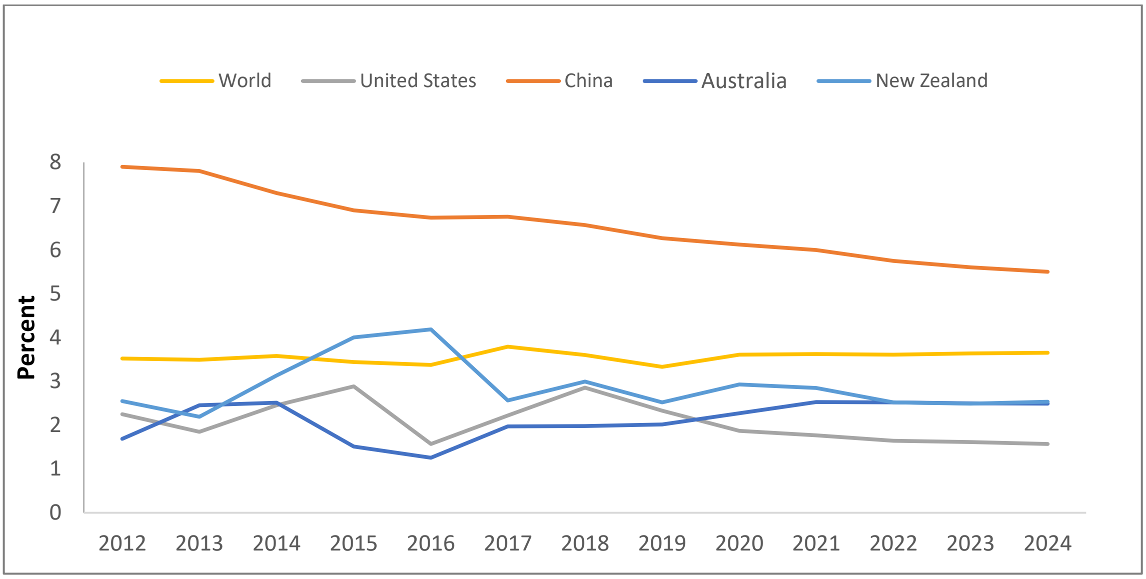
The ADB expects economic growth in the Pacific to rebound from 0.9 per cent in 2018 to 3.5 per cent in 2019 as liquefied natural gas production in Papua New Guinea, the sub-region's dominant economy, returns to full capacity following the 2018 earthquake. The ADB projects economic growth of 6.0 per cent in 2019 and 4.5 per cent in 2020 for the Cook Islands.

Global

The International Monetary Fund's (IMF) World Economic Outlook April 2019 cites the escalation of US–China trade tensions, macroeconomic stress in Argentina and Turkey, disruptions to the auto sector in Germany, tighter credit policies in China, and financial tightening alongside the normalisation of monetary policy in the larger advanced economies as contributing to a significantly weakened global expansion, especially in the second half of 2018. The IMF expects this weakness to persist, projecting that global growth, which peaked at close to 4 per cent in 2017, softened to 3.6 percent in 2018, will decline further to 3.3 per cent in 2019.

With improvements expected in the second half of 2019, the IMF projects global economic growth in 2020 to return to 3.6 percent, predicated on a rebound in Argentina and Turkey and some improvement in a set of other stressed emerging market and developing economies. The projections are therefore subject to considerable uncertainty. Beyond 2020, the IMF expects growth to stabilise at around 3½ percent, bolstered mainly by growth in China and India and their increasing weights in world income (see Figure 2-2).

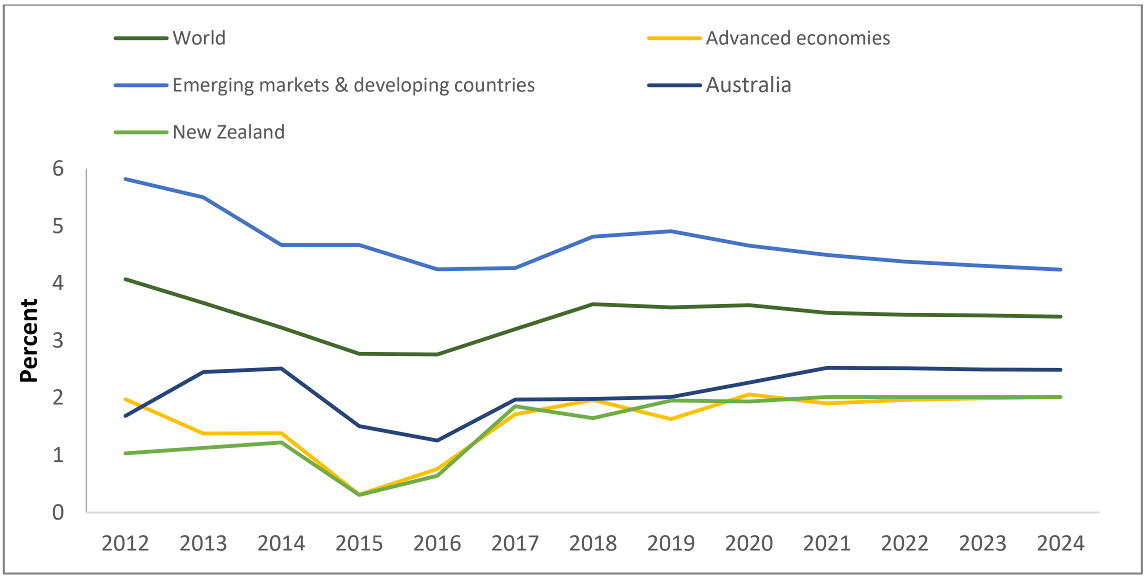
Figure 2-2: IMF GDP growth estimates, selected countries



The IMF notes that while the overall outlook remains benign, there are many downside risks. This includes trade policy tensions that could play out in other areas, such as the automotive industry, with large disruptions to global supply chains. Growth in China could also surprise on the downside, and the risks surrounding Brexit remain heightened.

Bearing in mind these downside risks, while the outlook for return to 3.6 per cent growth in 2020 is positive news for the Cook Islands' economy given its reliance on tourism, it does pose a risk of increased inflation. Consistent with the softer outlook for commodity prices and the expected moderation in growth, the IMF expects inflation to decline to 1.6 per cent in 2019 in advanced economies, from 2.0 per cent in 2018. Inflation in emerging market and developing economies excluding Venezuela, while stable across most regions, is nonetheless expected to firm to 4.9 per cent in 2019 from 4.8 percent in 2018, reflecting developments in a few economies. Inflation is then set to moderate to about 4 per cent over the medium term (see Figure 2-3).

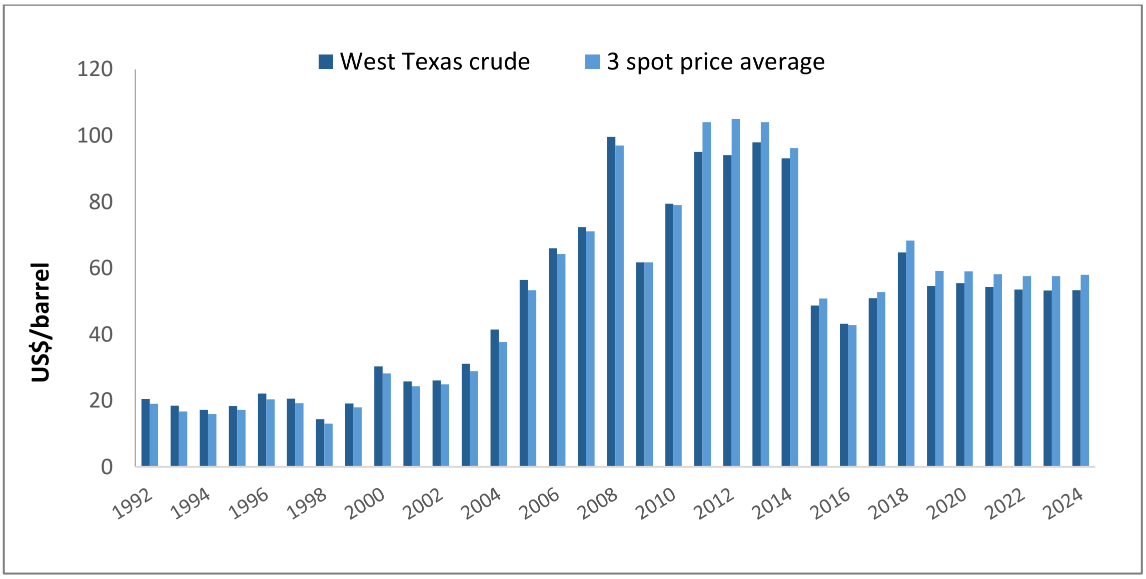
Figure 2-3: IMF inflation estimates, selected groupings and countries



The IMF notes that oil prices increased to more than US$80 a barrel in early October 2018, attaining their highest level since November 2014 as United States sanctions against oil imports from Iran loomed. In the last months of 2018, however, oil prices declined sharply as a result of record production growth in the United States and the issuance of waivers for most of the countries that import oil from Iran.

Based on oil futures contracts, the IMF projects average oil prices at US$59.20 in 2019 and US$59.0 in 2020. Oil prices are expected to remain in that range, reaching about $60 a barrel by 2023, consistent with subdued medium-term demand prospects and offsetting production adjustments that avoid large excess supply (see Figure 2-4).

Figure 2-4: IMF oil price estimates, 1992 to 2024, US$/barrel



2.4 Cook Islands Economic Output

2.4.1 Performance

As shown in Figure 2-5, the Cook Islands experienced real Gross Domestic Product (GDP) growth of 8.9 per cent in 2017/18, rising from $463.2 million to $504.5 million. This compares to the estimate of 9.0 per cent for 2017/18 presented in the 2018/19 HYEFU. This performance continues a strong run of growth of 6.0 per cent in 2015/16 and 6.8 per cent in 2016/17.

Figure 2-5: Real GDP growth, annual percentage change

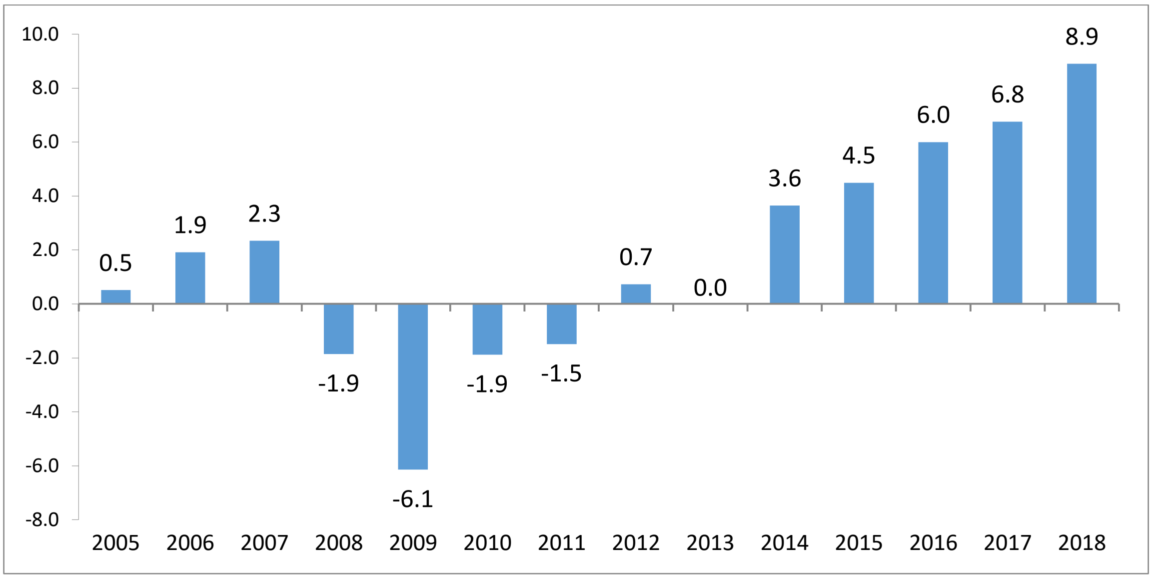
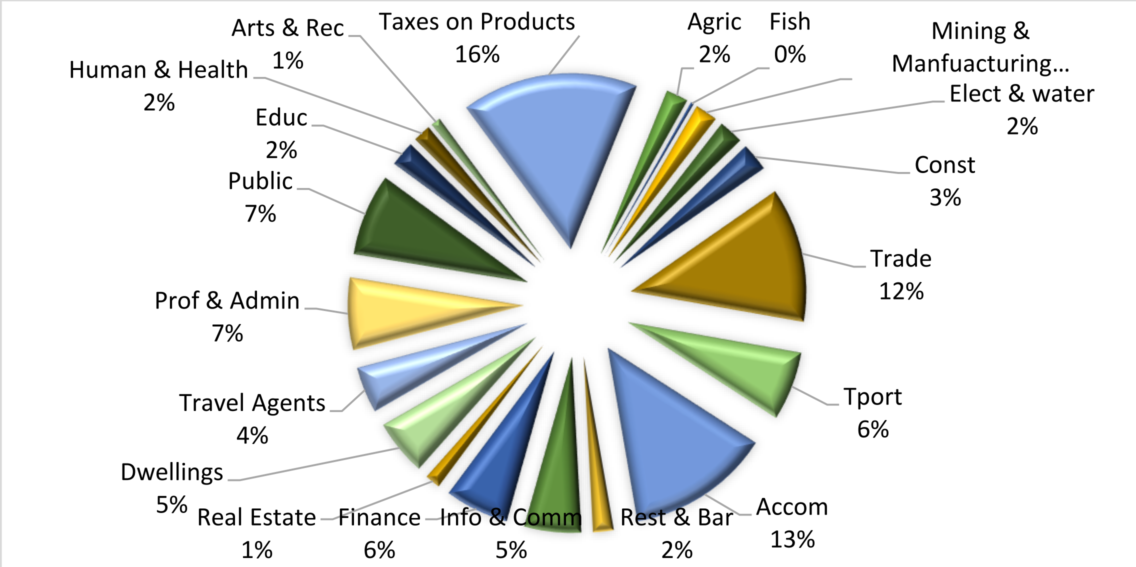


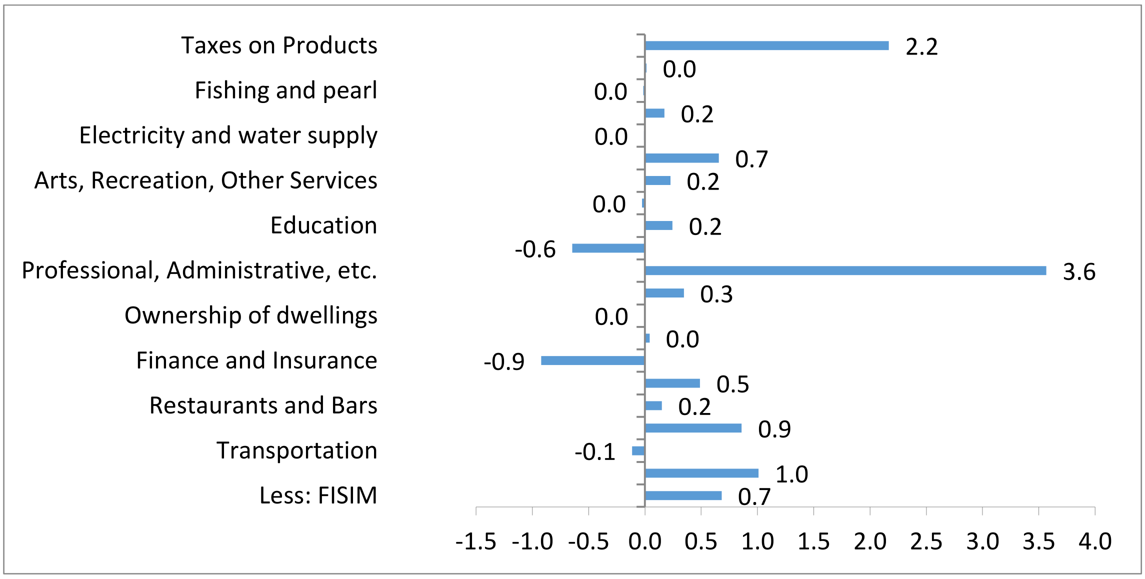
Figure 2-6 shows the breakdown of the Cook Islands economy by industry in 2017/18. The economy is dominated by the tertiary or services sector, accounting for about 77 per cent of the total economy in 2017/18, with the two largest tertiary industries, trade and accommodation services accounting for more than a quarter of total economic output.

Figure 2-6: Cook Islands economy by industry, 2017/18



In 2017/18, high tourist arrivals drove strong growth in the economy along with Government use of professional consulting services, with the tertiary sector contributing 5.2 percentage points to real economic growth (see Figure 2-7). The strongest industry contributions were from professional and administrative services (3.6 percentage points) and trade (1 percentage points). During this period, professional and administrative services grew by 91 per cent from $18.2 million to $34.7 million and trade rose by 7.8 per cent from $60.3 million to $65.0 million. A number of industries contracted in 2017/18, including finance and insurance and public administration.

Figure 2-7: Contribution to 2017/18 real growth (percentage point)

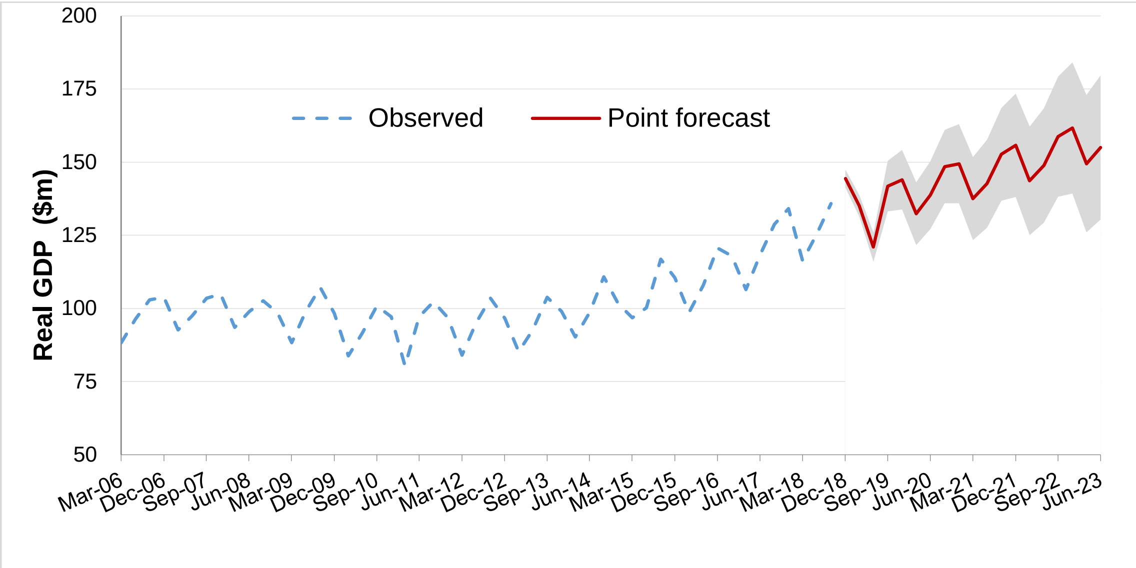


The secondary sector, which includes construction, electricity and manufacturing, contributed 0.8 percentage points to growth, while the primary sector, agriculture and fishing made no contribution.

2.4.2 Outlook

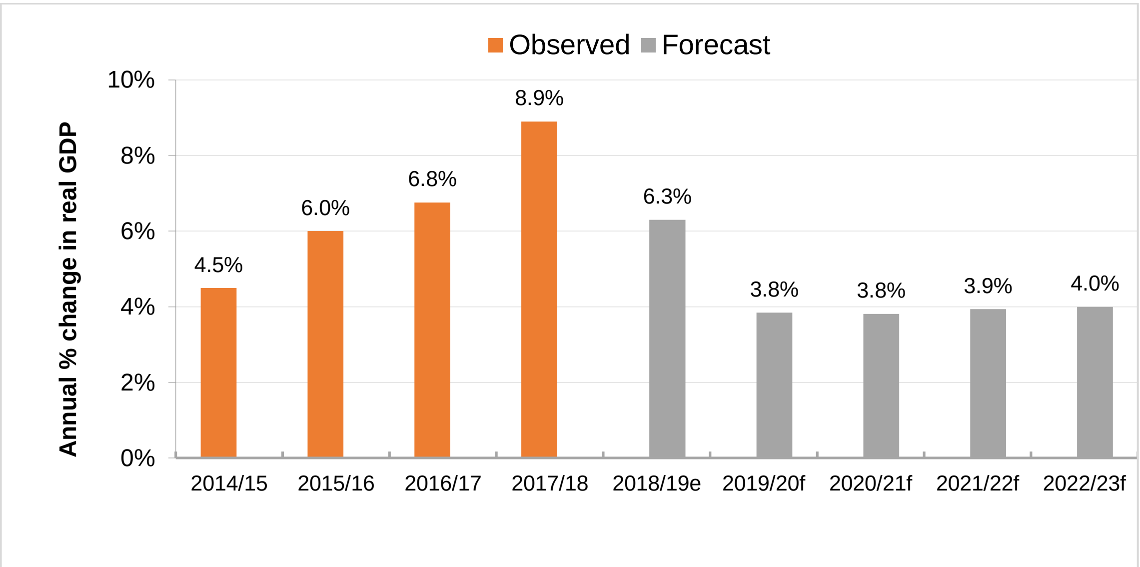
Observed and forecast real GDP from 2006/07 to 2022/23 is shown in Figure 2-8. A 95 per cent high and low confidence interval has also been computed and is displayed as the shaded area either side of the forecast time series.

Figure 2-8: Observed and forecast real GDP, financial year ($m)



The forecast percentage change over the forward budget period compared to recent years is shown in Figure 2-9. A growth rate of 6.3 per cent is estimated in 2018/19, with growth forecast to fall to 3.8 per cent in 2019/20, with annual average growth over the 4-year forward forecast at 3.9 per cent.

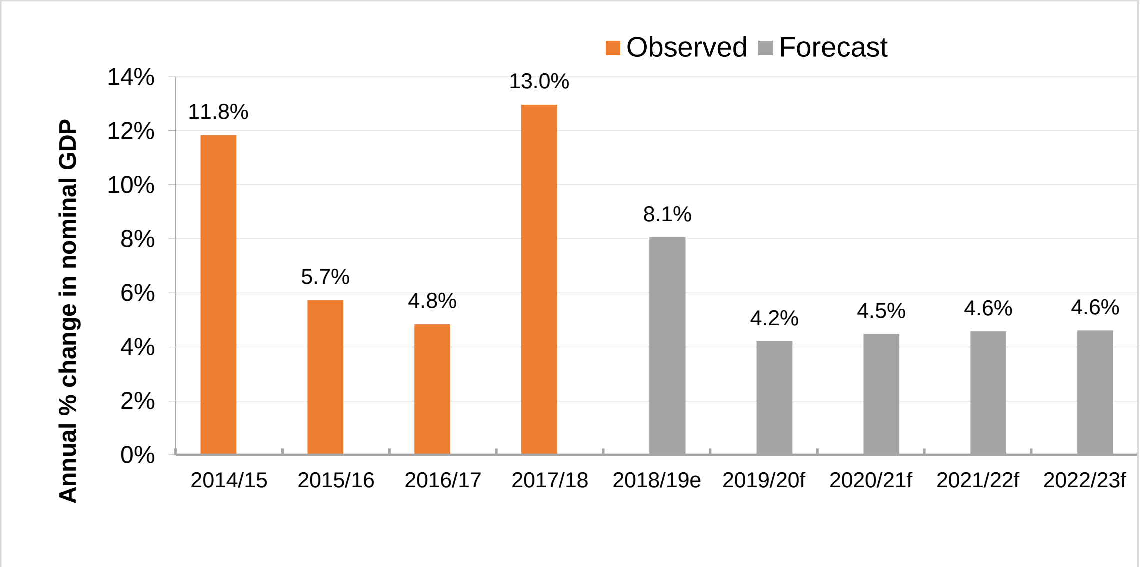
Figure 2-9: Annual change in real GDP (percentage)



The economic forecasts presented above are lower than the annual average growth forecast of 5.4 per year presented in the 2018/19 Half-year Economic and Fiscal Update (HYEFU) published in December 2018. This reflects lower forecast growth for visitor arrivals on the back of a weaker global outlook.

Figure 2-10 shows the forecast percentage change for nominal GDP. A growth rate of 8.1 per cent is estimated in 2018/19, with growth forecast to fall to 4.2 per cent in 2019/20, averaging 4.5 per cent per year over the 4-year forward period.

Figure 2-10: Annual change in nominal GDP (percentage)



In summary, as shown in Table 2-2, nominal and real GDP growth is expected to remain robust in the coming years, albeit at lower levels than in the recent past, due to continued but slower growth in tourism and investment, both public and private.

Table 2-2: Annual GDP growth summary

	2017/18	2018/19e	2019/20f	2020/21f	2021/22f	2022/23
Nominal GDP growth (%)	13.0	8.1	4.2	4.5	4.6	4.6
Real GDP growth (%)	8.9	6.3	3.8	3.8	3.9	4.0
Implicit GDP deflator	102.4	104.0	104.4	105.1	105.7	106.3

2.5 Consumer price index

2.5.1 Annual average performance to 2017/18

Inflation in the Cook Islands is measured by the consumer price index (CPI), which is reported on a quarterly basis by the Cook Islands Statistical Office. Aggregate inflation has fallen steadily since about 2011/12, from 2.8 per cent per year then, to minus 0.1 per cent in 2016/17. In 2017/18, CPI rose slightly to an average of 0.4 per cent over the year (Figure 2-11).

Figure 2-11: CPI, year average, 2005/06 – 2017/18 (percentage change)

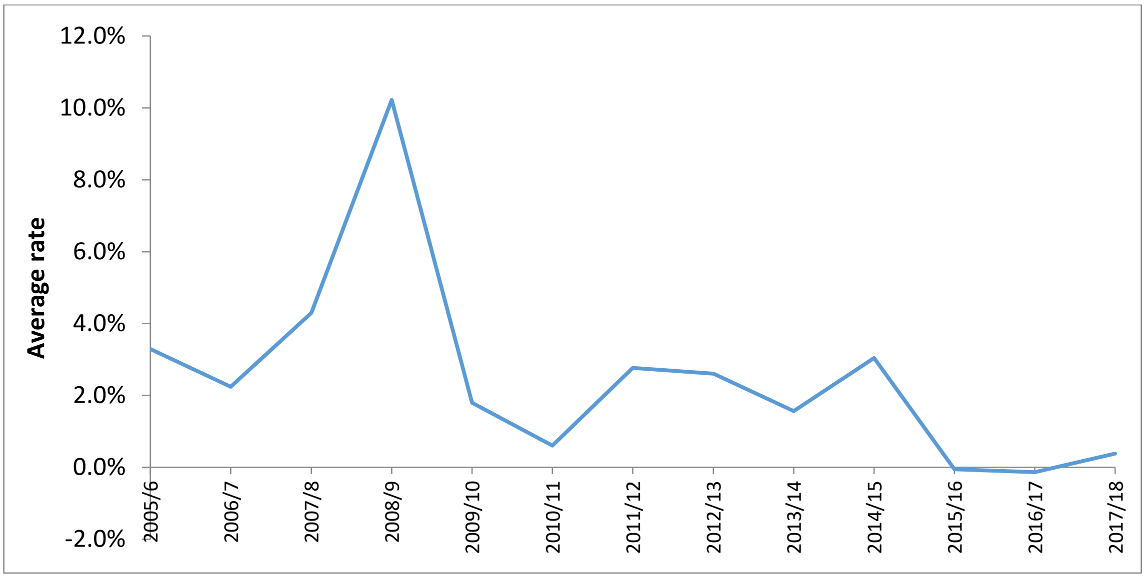
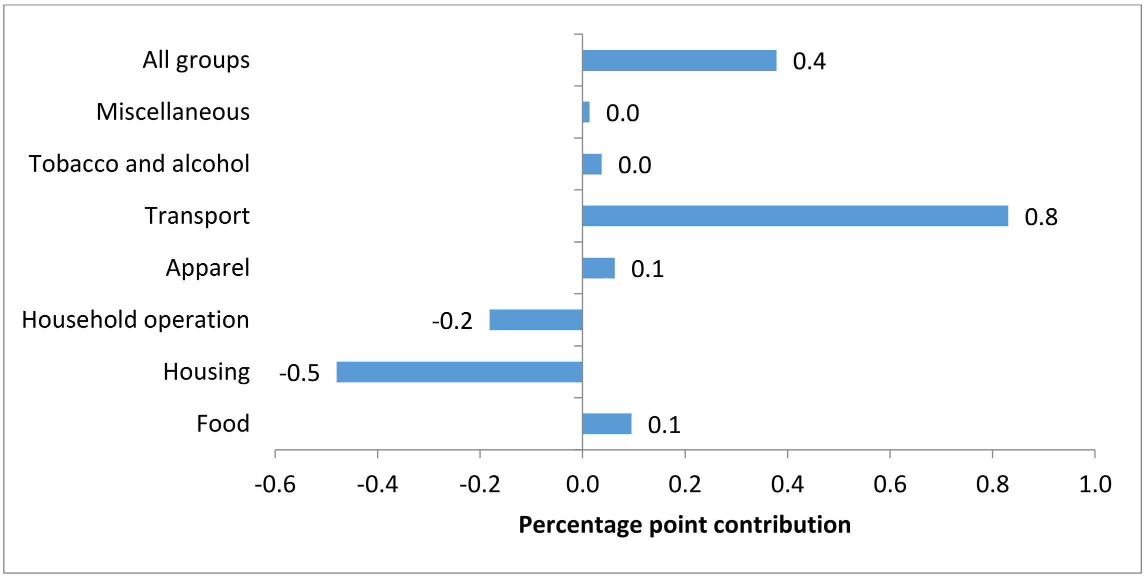


Figure 2-12 shows the contribution to aggregate inflation in 2017/18 by major category. The key driver of the increase was the transport category at 0.8 percentage points, with the household operation and housing categories partially offsetting this rise with falls of -0.2 and -0.5 percentage points, respectively.

Figure 2-12: Contribution to 2017/18 average inflation (percentage point)



2.5.2 Year to March 2019 performance

The CPI for the March quarter 2019, the most recent data available, shows a decrease of 0.56 per cent compared to the Mach quarter 2018, as shown in Figure 2-13.[4] Over this period, rises

[4] Note that when comparing the March quarter 2019 to the March 2018 quarter, this is a year on year rather than average across the year measure.

in the transport, apparel and food groups were more than offset by falls in the housing, household operations and tobacco and alcohol groups.

Figure 2-13: CPI, year to March, annual percentage change

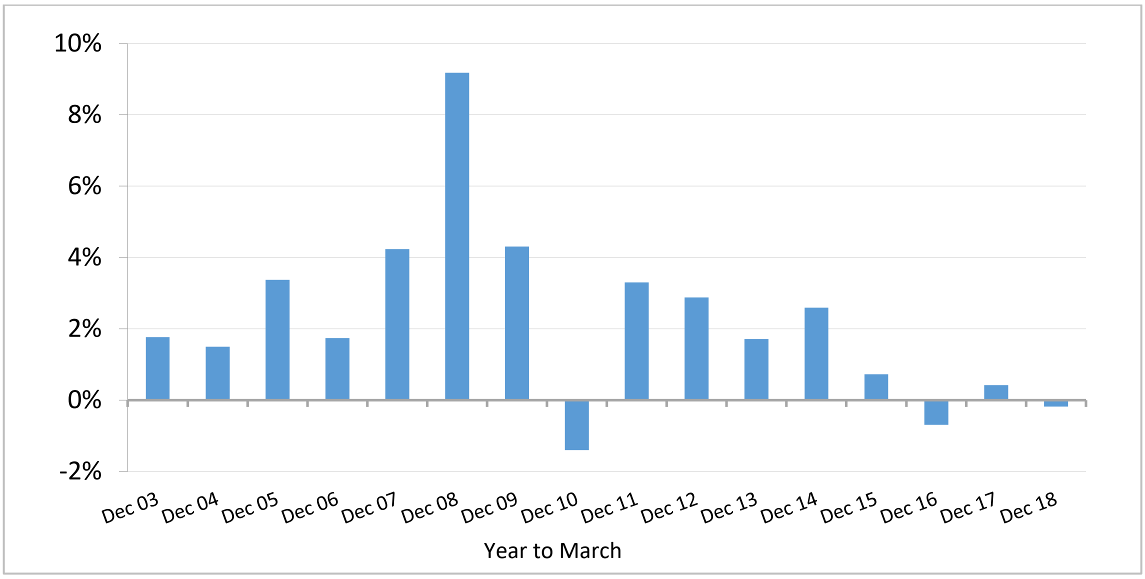
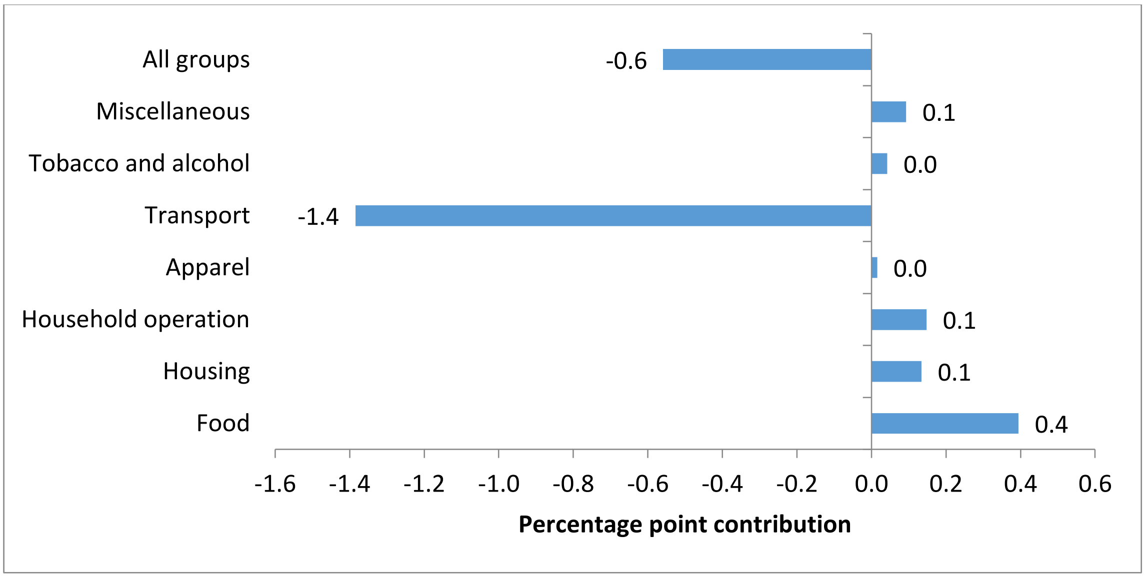


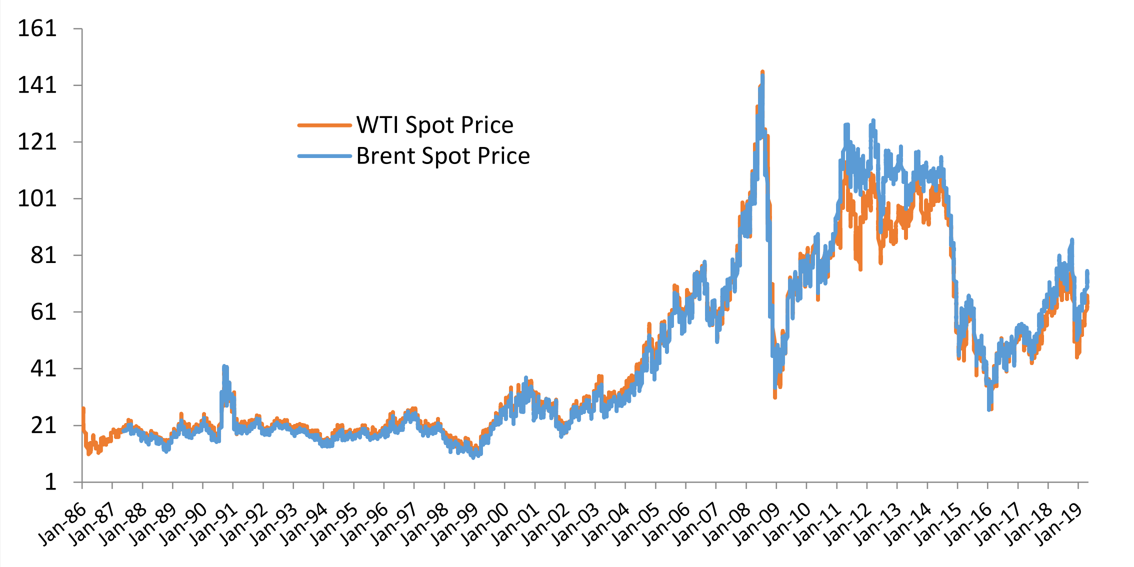
Figure 2-14 shows the contribution to aggregate inflation in the year to March 2019 by major category. The key driver of the decrease was the transport category at minus 1.4 percentage points, with the food category in particular partially offsetting this fall with a rise of 0.4 percentage points.

Figure 2-14: Contribution to year to March 2019 inflation (percentage point)



The fall in transport costs, entirely driven by the overseas travel sub-component of the transport category is consistent with the fall in spot price of oil over the year to March 2019, as shown in Figure 2-15. Over this period, the spot price of West Texas Intermediate crude fell by 7 per cent from US$64.9 per barrel to US$60.2 per barrel.

Figure 2-15: Daily oil spot price, 1992 to 2019, US$/barrel



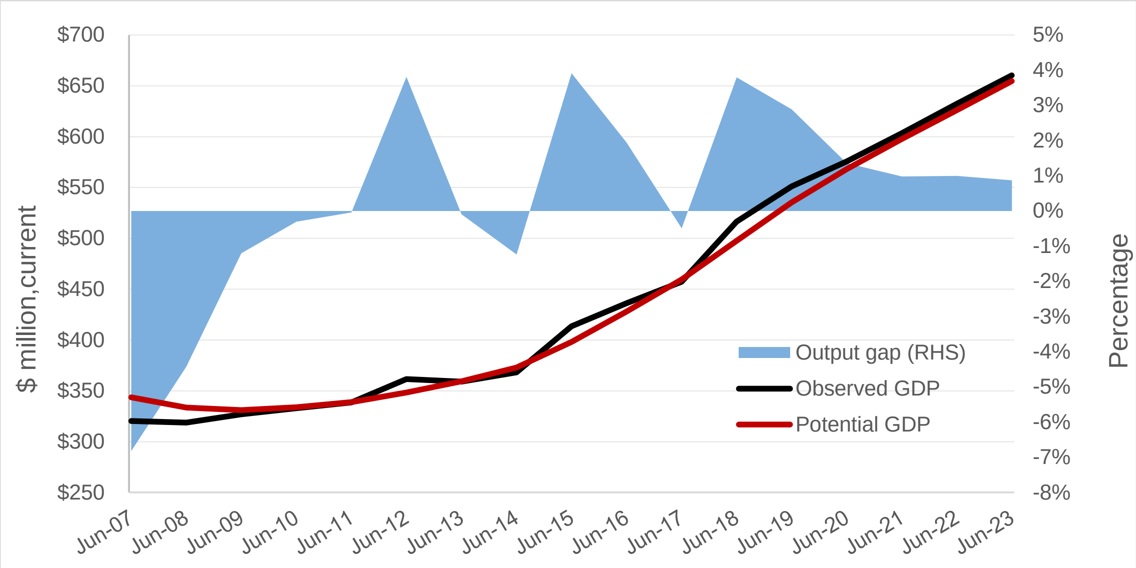
2.5.3 Inflation forecasts

The IMF April 2019 World Economic Outlook noted that in the United States, the market-implied path of expected policy rates remains below the Fed's projections, raising the possibility of a market reassessment of the expected policy path if US economic data remain strong. The IMF advised that this could result in higher US interest rates, and renewed dollar appreciation. Should this eventuate, the value of the New Zealand dollar would decrease somewhat over the forward period, which could in turn push domestic inflation up over the medium-term through increased costs of imports.

Analysis of the Cook Islands real output gap, using a multivariate Kalman filter approach, suggests that the Cook Islands is currently confronting a positive output gap.5 While there is no evidence of overheating showing up in the Consumer Price Index (CPI) data at present, should the positive output gap continue for an extended period of time, capacity constraints such as labour and skills shortages are likely to strengthen, resulting in inflationary pressure. Forecasts of the nominal output gap indicate that the positive gap will persist over the forward budget period, but decline in magnitude over time.

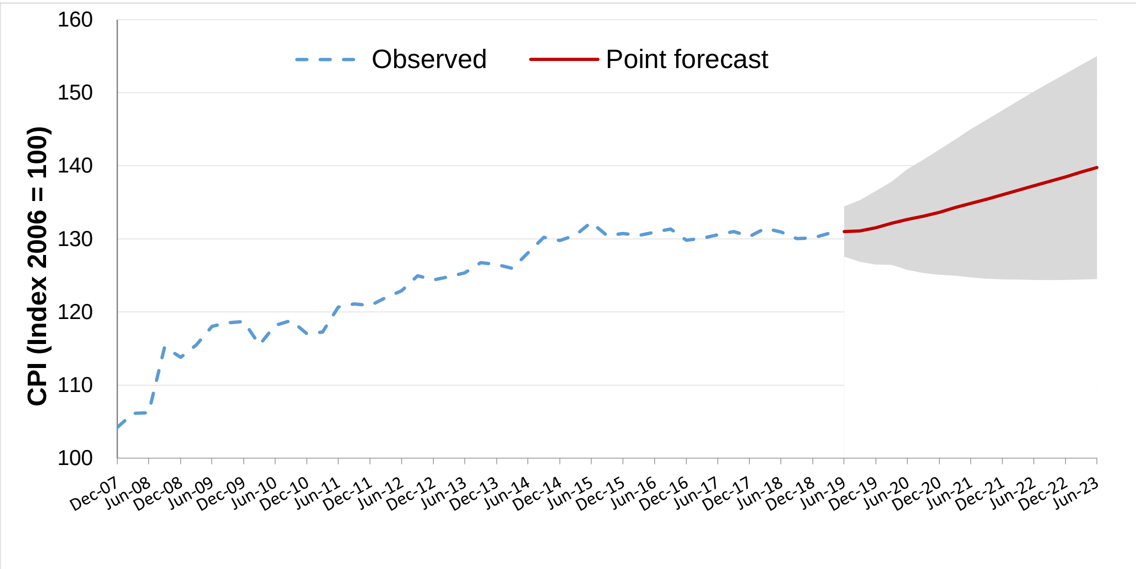
[5] For more information, see Estimating the output gap in the Cook Islands – preliminary analysis: Working Paper No. 18/2, available at: http://www.mfem.gov.ck/economics.

Figure 2-16: Nominal output gap, univariate Kalman filter forecast



Observed and forecast quarterly CPI from December 2007 to June 2023 is shown in Figure 2-17. A 95 per cent high and low confidence interval has also been computed and is displayed as the shaded area either side of the point forecast time series.

Figure 2-17: CPI, quarterly index, 2007 to 2023



Overall, as shown in Figure 2-18 and Table 2-3, inflation is estimated at minus 0.4 per cent in 2018/19, and forecast to pick up to 1.1 per cent in 2019/20 before rising further to about 1.8 per cent per year over the forward budget period.

Figure 2-18: Annual average change in CPI (percentage)

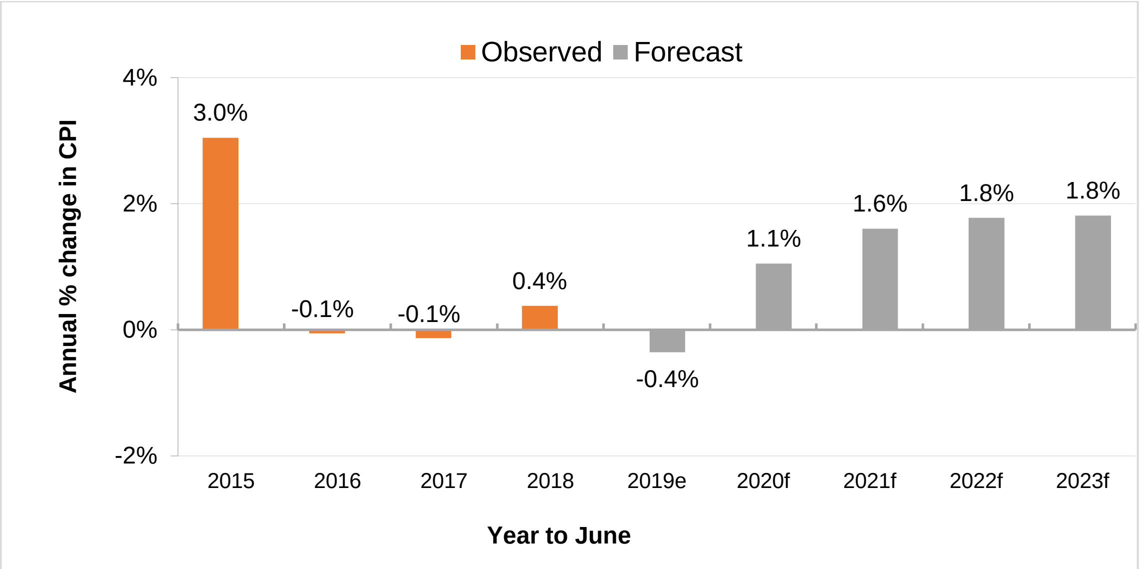


Table 2-3: Annual CPI forecast summary

	2017/18	2018/19e	2019/20f	2020/21f	2021/22f	2022/23f
CPI average annual index	130.9	130.5	131.9	134.0	136.3	138.8
CPI average annual percentage change	0.4	-0.4	1.1	1.6	1.8	1.8

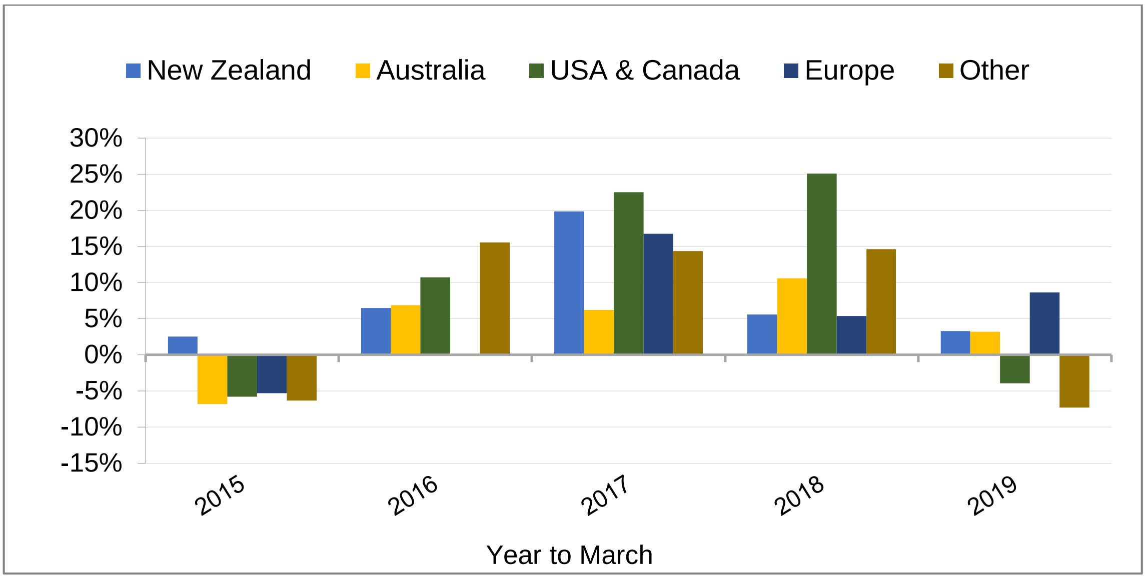
2.6 Tourism

2.6.1 Aggregate tourist arrivals

The year to March 2019, the most recent data available, shows the recent strong growth in tourist arrivals tailing off to more realistic levels. The tourism market saw growth of 8 per cent in the year to 2018, falling to 3 per cent in the year to March 2019. Total visitor arrivals rose from 162,650 to 167,262 over this period.

While New Zealand visitors still dominate the raw numbers, visitors from Europe recorded the highest visitor growth rate in the year to March 2019, with a 9 per cent rise on the previous year's 11,626 visitors to 12,269 (see Figure 2-19). In contrast, tourist arrivals from the United States and Canada fell by 4 per cent from 11,545 to 11,089.

Figure 2-19: Visitor arrivals, country of residence (annual percentage change)



Total arrivals for the 2018/19 financial year are estimated at 166,209, 1 per cent higher than the 164,800 seen in 2017/18. As shown in Figure 2-20, growth is expected to pick up to 2.3 per cent in 2019/20, averaging about 2.3 per cent per year over the forward period to 2022/23, with 181,845 visitors forecast.

Figure 2-20: Total visitor arrivals, quarterly, 2008 to 2023

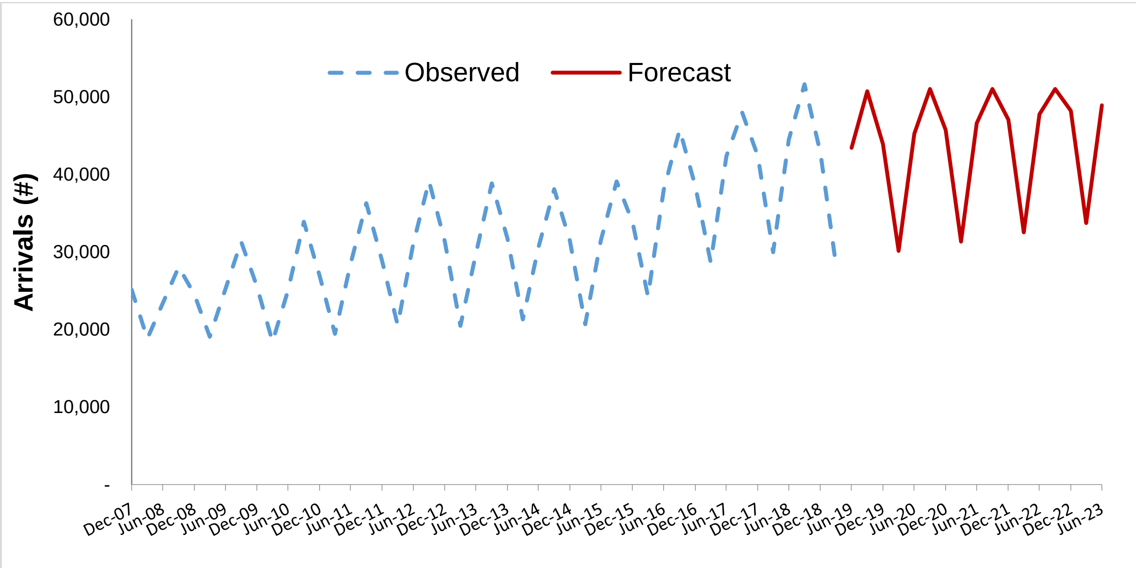


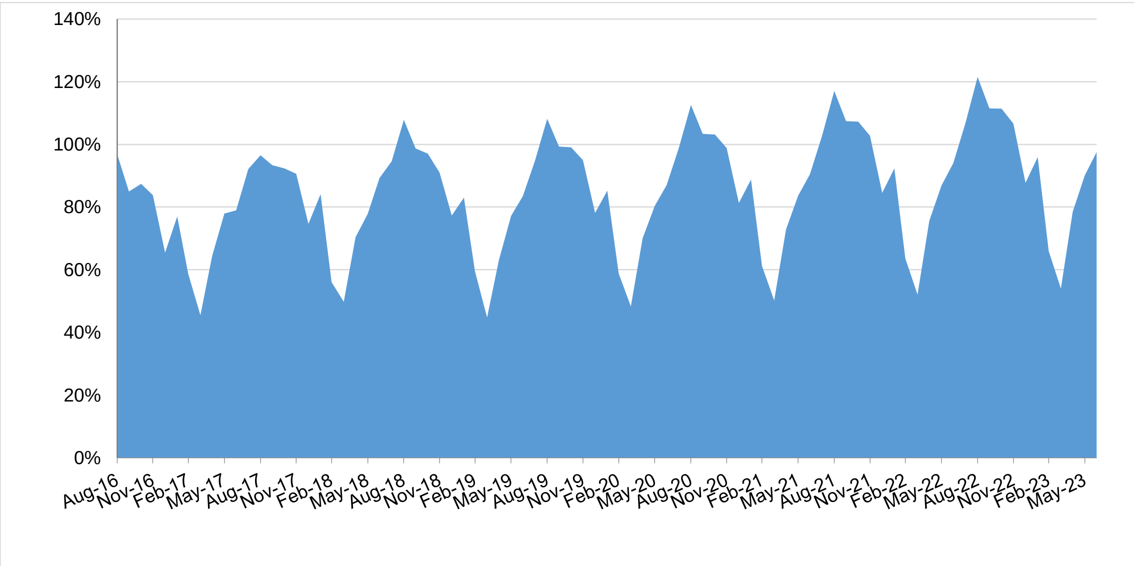
Table 2-4: Estimated total arrivals, quarterly, 2018/19 to 2022/23

Quarters	2017/18	2018/19e	2019/20f	2020/21f	2021/22f	2022/23f
September	47,977	51,608	50,722	51,000	51,000	51,000
December	42,389	42,718	43,916	45,718	47,064	48,219
March	29,949	28,451	30,113	31,310	32,512	33,720
June	44,485	43,432	45,246	46,597	47,748	48,905
Annual total	**164,800**	**166,209**	**169,997**	**174,625**	**178,325**	**181,845**

The visitor arrivals forecasts in this chapter take account of industry capacity constraints. The highest number of tourists that the country has received is 18,332, in July 2018. The economic forecasts are based on a more conservative maximum of 17,000 per month.

As indicated in Table 2-5, the September quarter (July to September) is the busiest time for tourists. Figure 2-21 highlights the capacity limitations experienced in the Cook Islands, by month. During 2019/20, maximum capacity is expected to be reached in the month of July, with more than 90 per cent capacity expected to be reached during a further 4 months. This situation worsens in 2020/21 with maximum capacity expected to be reached during 3 months of the year, rising to 5 months the following year.

Figure 2-21: Tourism capacity utilisation, monthly, 2016 to 2023



2.6.2 Major markets

Introduction

The major tourism markets for the Cook Islands are New Zealand with 67 per cent of total arrivals in 2017/18, followed by Australia with 16 per cent and Europe and the USA and Canada at 7 per cent each. Other markets including Asia and French Polynesia make up the remaining 3 per cent. Table 2-5 shows the aggregate tourist arrivals forecasts broken down by major market, by financial year.

Table 2-5: Forecast total tourism numbers, by major market, 2018/19 to 2022/23

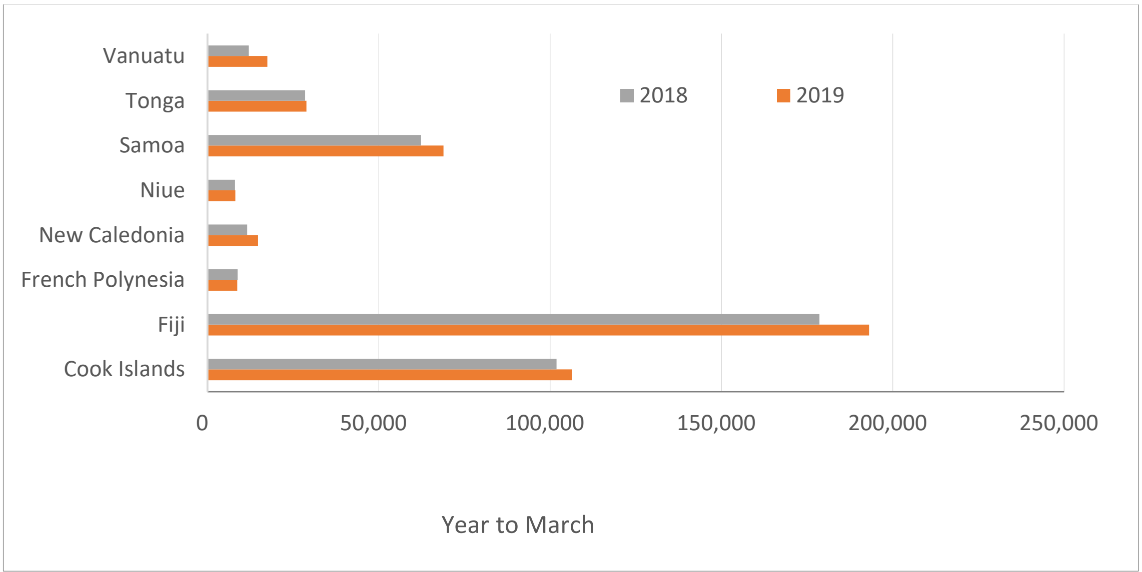
Markets	2017/18	2018/19e	2019/20f	2020/21f	2021/22f	2022/23f
New Zealand	110,227	110,555	112,256	114,945	116,998	118,944
Australia	26,398	27,853	28,761	29,899	30,878	31,817
USA & Canada	11,418	11,017	11,397	11,716	11,982	12,236
Europe	11,928	12,630	13,110	13,590	14,006	14,404
Other	4,829	4,153	4,472	4,476	4,461	4,444
Total	**164,800**	**166,209**	**169,997**	**174,625**	**178,325**	**181,845**

New Zealand

New Zealand visitors continue to make the strongest contribution to tourist arrival numbers. New Zealand arrivals reached 111,800 in the year to March 2019, a 3 per cent increase over the previous year.

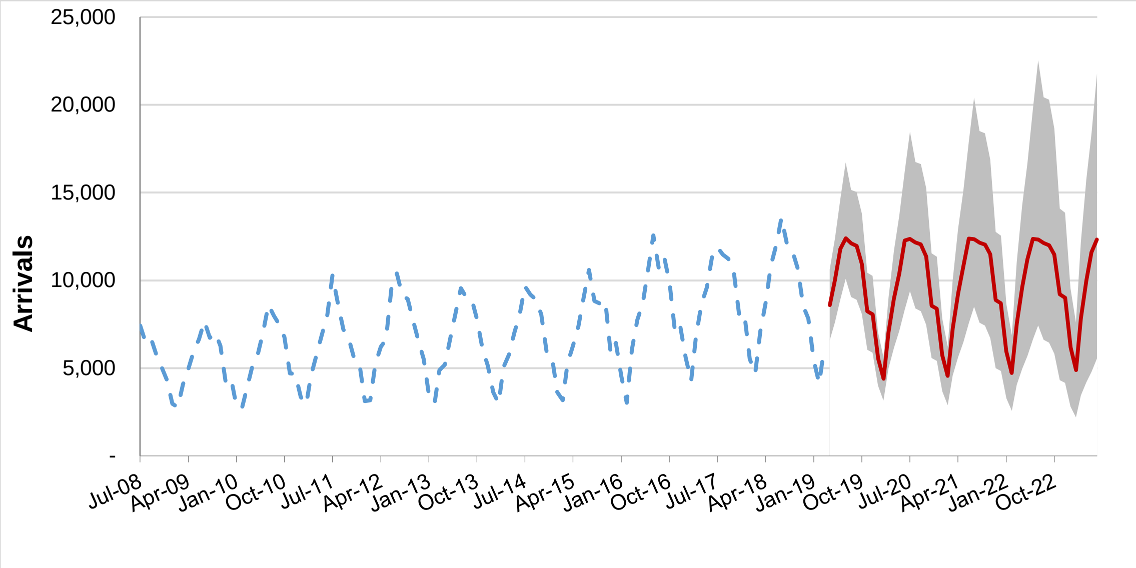
Growth in tourism numbers from New Zealand is consistent with the general growth in New Zealand outward tourists to the Pacific, which has increased steadily in recent years. The Cook Islands is receiving an increasingly larger share of New Zealand tourists to Oceania, rising from 6.2 per cent in the year to March 2018 to 6.3 per cent in the year to March 2019, behind Australia and Fiji.

Figure 2-22: New Zealand Pacific resident arrivals, by main country visited



Arrival numbers for New Zealand visitors to the Cook Islands are expected to continue to increase going forward, but at slower rates than in recent years (see Figure 2-23). Growth is estimated at 0.3 per cent in 2018/19, rising to 2.4 per cent in 2019/20, averaging 1.8 per cent over the forward budget period. Total New Zealand arrivals are expected to rise from 110,555 to 118,944 over this period.

Figure 2-23: New Zealand arrivals, quarterly, 2008 to 2023



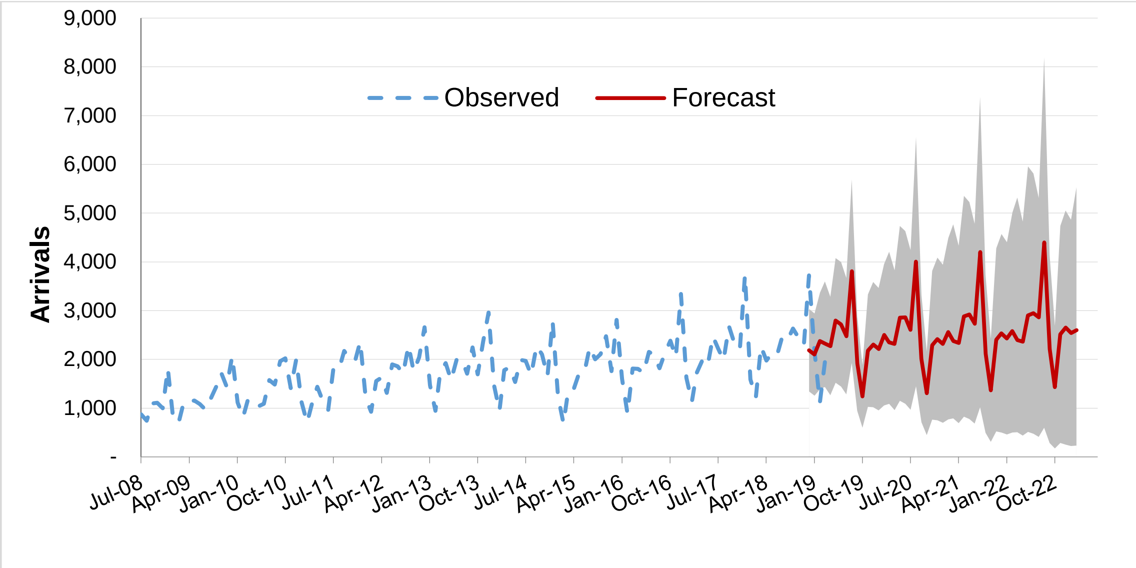
Australia

Australia is the second largest tourism market for the Cook Islands. Following recent strong growth of 6 per cent in the year to March 2017, and 11 per cent the subsequent year, Australian visitors recorded slower growth of 3 per cent in the year to March 2019. This took Australian visitor numbers from 26,513 in the year to March 2018 to 27,365 the following year.

The Cook Islands has seen significant growth in Australian visitors over the past ten years, with growth averaging about 9 per cent per year. This is off the back of strong growth in Australian outbound tourism (5 per cent from the year to March 2018 to the year to March 2019) and the increase in flights from New Zealand to Rarotonga which has increased interconnection options from Australian cities. Tourism Australia forecasts that outbound tourist numbers will continue to grow in Australia, increasing by an annual average of 3.9 per cent to 2026/27.

Arrival numbers for Australian visitors to the Cook Islands are expected to moderate going forward. Growth is estimated at 5.5 per cent in 2018/19, falling to 3.3 per cent in 2019/20, before falling further to about 3 per cent by 2022/23 (see Figure 2-24). Australian visitors are expected to increase from about 27,853 to 31,817 over this period.

Figure 2-24: Australia arrivals, quarterly, 2008 to 2023



Other markets

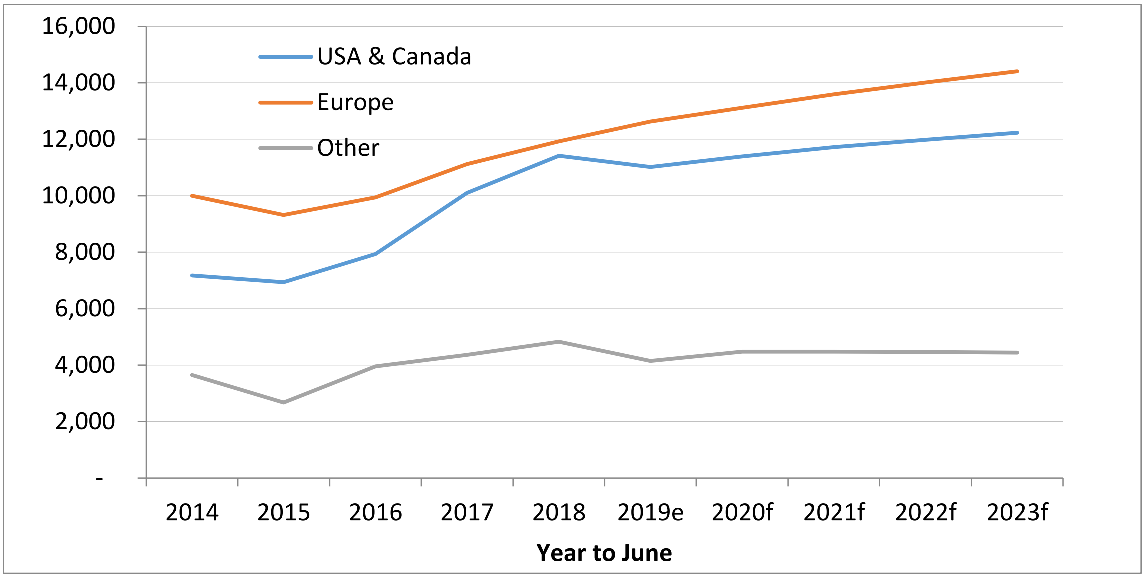
The year to March 2019 has shown mixed results for the other Cook Islands tourism markets.

Arrivals from the United States and Canada, the North American market, fell by 4 per cent from 11,545 in the year to March 2018 to 11,089. Growth is expected to recover in 2019/20 to 3.4 per cent, before falling to about 2 per cent by the end of the forward budget period (see Figure 2-25). Any further strengthening US dollar could have a positive impact on tourist numbers.

Visitor numbers from Europe grew by 9 per cent in the year to March 2019, from 11,626 in the previous year to 12,629. Growth is expected to be 5.9 per cent in 2018/19, thereafter averaging about 2.7 per cent over the forward budget period.

Following strong growth in recent years, arrivals from Asia and French Polynesia fell by 20 and 25 per cent, respectively in the year to March 2019. Average growth of about 1.8 per cent per year is expected over the forward budget period.

Figure 2-25: Other major markets arrivals, 2013/14 to 2022/23

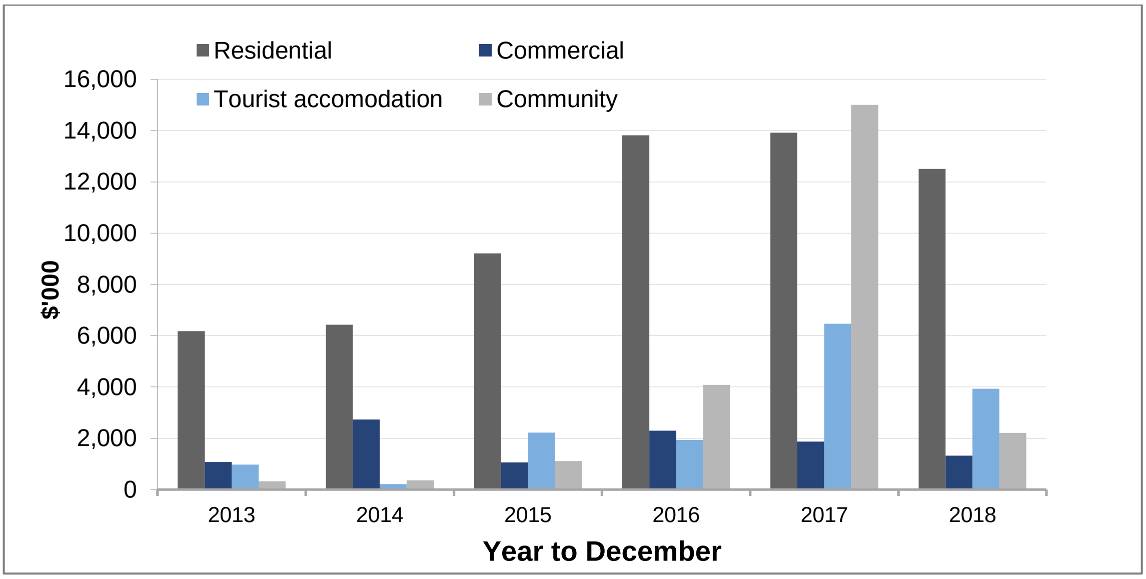


2.7 Housing and construction

2.7.1 Performance

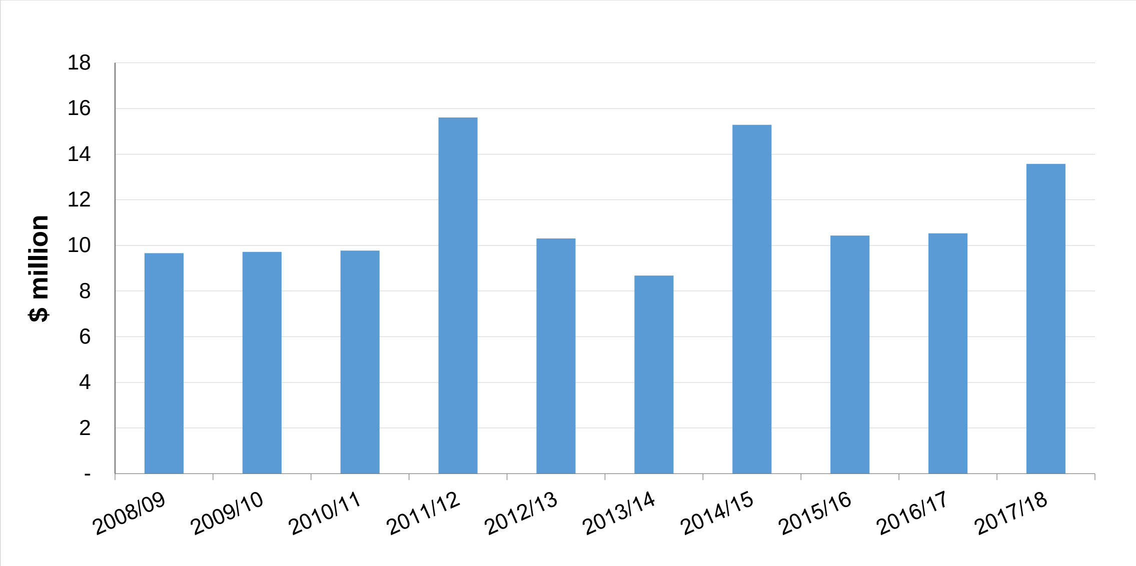
Despite a substantial decline in the value of residential and commercial (commercial, tourist and community buildings) building approvals in the year to December 2018 compared to the year to December 2017 (see Figure 2-26), the value remains well above trend. Total approvals value fell by 46 per cent from $37.3 million to $20.0 million, largely driven by a reduction in the value of community infrastructure approvals, following the completion of a number of large projects such as the Tereora College redevelopment.

Figure 2-26: Building approvals, $'000, 2013 to 2018



The high level of the value of building approvals in recent years is reflected in the performance of the construction sector of the Cook Islands economy. The construction sector's contribution to GDP, shown Figure 2-27, has risen from \$10.4 million in 2015/16 to \$13.6 million in 2017/18.

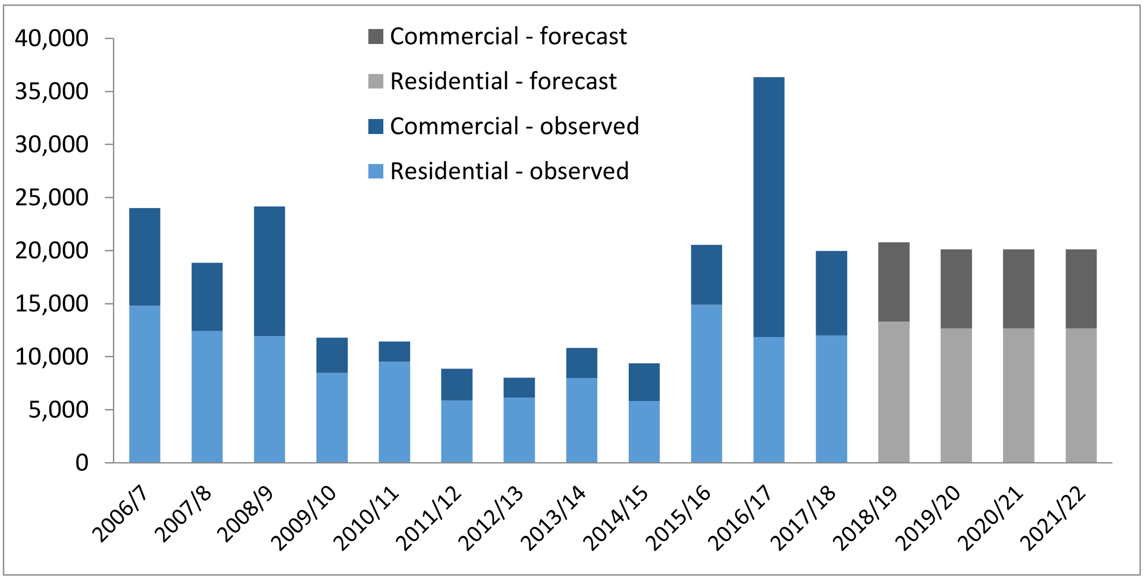
Figure 2-27: Construction sector contribution to real GDP, 2008/09 to 2017/18 (\$'000)



2.7.2 Outlook

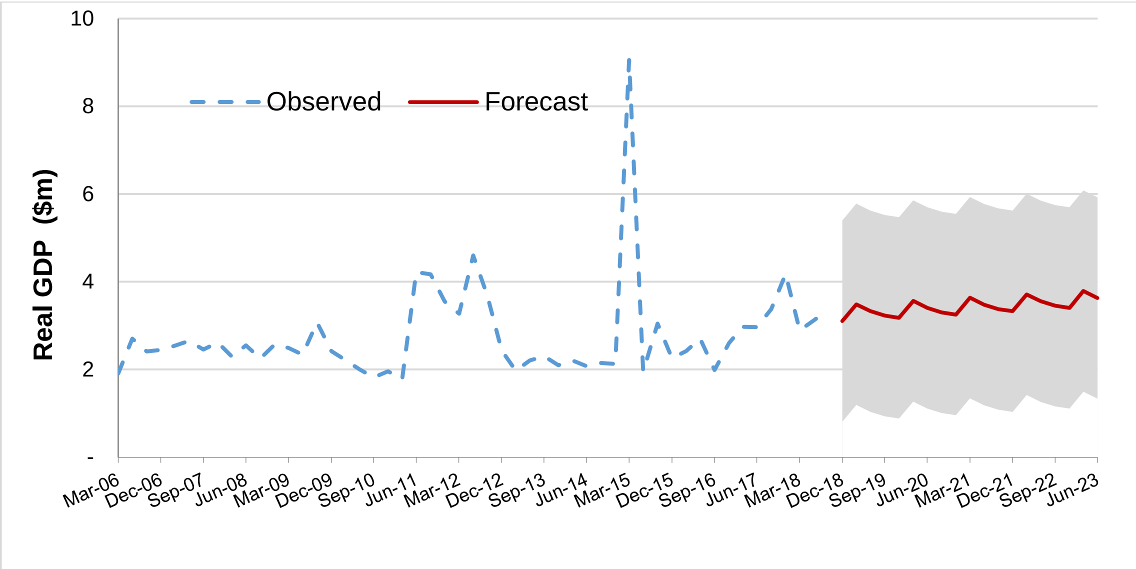
Going forward it is expected that both residential and commercial building approvals will stay at similar levels to those seen in 2017/18, reflecting the expected level of construction activity to service the tourism market, and continuation of government expenditure on a wide range of capital projects (see Figure 2-28).

Figure 2-28: Value of building approvals, 2006/07 to 2022/23 (\$'000)



The expected level of building approvals over the forward budget period is reflected in the steady state medium-term forecast for the construction sector as a whole shown in Figure 2-29.

Figure 2-29: Construction sector forecast, 2006 to 2023 ($ million real)



2.8 Marine resources

2.8.1 Fishing

The main benefit to the Cook Islands Government from fishing activities is revenue from treaty arrangements, license fees and the sale of catch quotas. The provisional revenue estimate for 2018/19 is $11.5 million.

In December 2016 new longline regulations for the Quota Management System (QMS) were enacted. Under the QMS a total allowable catch of 9,750 metric tonnes (MT) of albacore tuna and 3,500 MT of bigeye tuna per calendar year were set. The quota system was implemented in January 2017, with revenue returns of around $3 million per year received, exceeding previous licensing arrangements which returned around $2.4 million per year.

A significant portion of revenue comes from the purse seine fishery, where the Cook Islands Exclusive Economic Zone (EEZ) has a total limit of 1,250 fishing days in accordance with management measures implemented by the Western Central Pacific Fisheries Commission (WCPFC).

During 2016, the US and Pacific Island states negotiated a new US Multilateral Treaty with a six year term. Under the agreement the Cook Islands will commit 350 fishing days annually before the start of the calendar year. In 2018 the United States acquired 323 fishing days under this pool. In addition, the US fishing industry also entered into bilateral arrangements for 200 additional fishing days for vessels which have not acquired pooled days or who require additional days.

In January 2018, the Government renewed licenses for two Spanish purse seine fishing vessels under the European Union (EU) Sustainable Fisheries Partnership Arrangement.

Under the 8 year agreement there is a 4 year protocol for fisheries access allowing up to 7,000 MT per year to be fished by EU Purse Seiners. This arrangement accounts for approximately 158 of the 1,250 vessel days assigned annually by WCPFC.

For the 2018 calendar year, the price for a fishing day ranged between $12,500 to $13,500, as determined by exchange rates which affect the US Treaty; and the EU fisheries partnership, and vessel days charged at a rate of US$9,500 per day. Projected fisheries revenue for 2019/2020 is about $11.5 million. The sources of revenues include:

- $3 million from the longline licensing, development fees and quota management system;
- $1.2 million from the US Treaty equal shares;
- $4.7 million from the US Treaty annual pool;
- $1.5 million from the US Treaty bilateral arrangements;
- $400,000 from the EU Sustainable Fisheries Partnership Agreement (SFPA) fishing authorisations.

The figures above exclude ODA of US$156,000 from the US Treaty Project Development Fund, and EUR350,000 for EU SFPA fisheries sectoral support. Fisheries revenue is expected to remain relatively stable. Purse seine related revenue are largely dependent on annual fishing patterns influenced by climatic conditions i.e. El Nino, and therefore experience year on year fluctuations. Fisheries management arrangements and differences in pricing for purse seine vessel days will also influence where and when fleets choose to fish.

Fishing activities

The Cook Islands EEZ is divided into the northern and southern fishery grounds (delineated at 15°S latitude), with the majority of fishing activity taking place in the northern fishery which is more stable and productive.

The longline albacore fishery catch is generally unloaded or transhipped in Apia, Samoa or Pago Pago, American Samoa. The longline catch peaked at 15,500 MT in 2012 when exploratory fishing for bigeye tuna was conducted. This experience helped to inform the setting of catch and effort levels that could be maintained to support both biological and economic objectives of the fishery, which are about where current levels are and should be maintained.

Since then catch has declined to 4,739 MT in 2018 as the fishery has reverted back to its reduced regulated albacore catch limits. Over the same period purse seining has become the dominant fishery in the Cook Islands, in terms of both catch and value expanding from 476 MT in 2010 to a peak of 30,273 MT in 2018.

The total commercial catch for all vessels was 35,012 MT in 2018, an increase from 25,466 in 2017. This is driven by increases in both longline and purse seine catch.

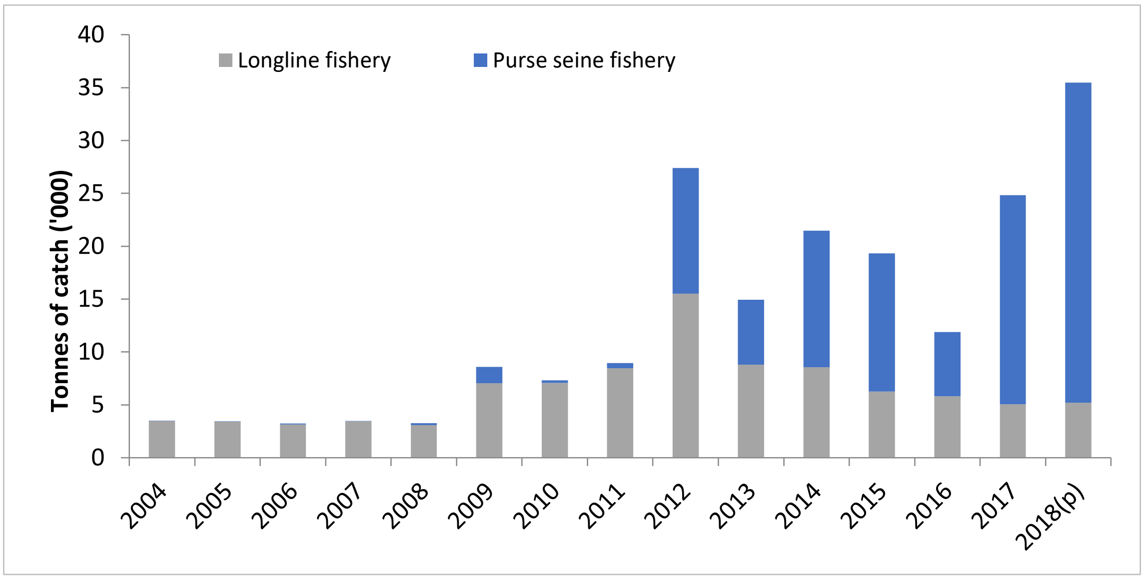
The Quota Management System applies to two species caught in the longline fishery. This is implemented through the Marine Resources (Large Pelagic longline Fishery and Quota Management System) Regulations 2016 (QMS) which came into force on 1 January 2017, by placing quota limits on albacore (ALB) and bigeye tuna (BET) in Cook Island waters.

The QMS Regulations placed a commercial quota limit or total allowable commercial catch (TACC) and total allowable catch (TAC) for each of the species as follows:

- 9,750 MT ALB (TAC)
- 9,698 MT ALB (TACC)
- 3,500 MT BET (TAC)
- 2,500 MT BET (TACC).

In 2018 a total of 4,095 MT of ALB was purchased accounting for 58 per cent of the ALB TACC, and a total of 660 MT BET was purchased accounting for 26.4 per cent of the BET TACC.

Figure 2-30: Fishery catch in the Cook Islands EEZ (MT)



The Cook Islands also supports a small local fishery of artisanal and sports fishing game charter operators. In 2017, 229 MT was caught by local fishers, with an estimated nominal catch of 150 MT in 2018.

Provisional catch estimates indicate albacore and yellowfin tuna together accounted for around 86 per cent of species caught by longline in 2018, with a decrease in yellowfin compared to 2017 (Table 2-6). With the increase in purse seining, skipjack was the dominant catch species in 2018, with approximately 28,949 MT accounting for 95 per cent of the total catch.

Table 2-6: **Fishery catches in the Cook Islands EEZ by species (MT)**

	2016			2017			2018(p)		
	Longline	***Purse Seine***	***Local***	***Longline***	***Purse Seine***	***Local***	***Longline***	***Purse Seine***	***Local (P)***
Albacore	4,224	0	1	3,315	0	0	3,697	0	1
Bigeye	537	86	0	259	439	0	254	256	1
Yellowfin	1,094	416	77	902	1,767	150	775	1,068	87
Skipjack	123	4,874	7	76	18,202	23	13	28,949	5
Other	725	10	24	506	N/A	56	445	0	56
Total	**6,703**	**5,386**	**109**	**5,058**	**20,408**	**229**	**5,184**	**30,273**	**150**

In 2018, a total of 89 licensed vessels were managed by the Ministry of Marine Resources (MMR). These include 40 long liners, 36 purse seiners, 2 high seas trawlers and 11 bunker vessels. In addition there were 238 local artisanal and game charter fishing boats reporting catches to the MMR (Table 2-7).

Table 2-7: Number of active fishing vessels

Licensed and active vessels	**2014**	**2014**	**2015**	**2016**	**2017**	**2018**
Offshore fishery						
Long liner	45	36	38	47	55	40
Purse seiner	17	18	65	33	16	36
Other commercial	4	5	5	10	8	13
Total	66	59	108	90	79	89
Local artisanal and game fishery	**223**	**302**	**301**	**285**	**273**	**238**

One domestic commercial fishing company, with three Cook Islands' flagged longline vessels, operates in the southern Cook Islands waters, and offloads its catch to Avatiu port for domestic market and export markets such as Japan. For Cook Island domestic vessels that unload in Rarotonga, 183 MT was unloaded in 2018 compared to 286MT in 2017. This decrease in catch volume can be attributed to the reefing of one of the domestic vessels operating out of Rarotonga in 2018. The volume of exports decreased from 25 to 8 MT over this period.

Landed frozen catch by foreign flagged vessels in Rarotonga totalled nearly 400 MT in 2016, up from 363 MT in 2015. In 2014, the total catch landed by Chinese vessels was 1,900 MT, a very large spike compared to normal catch levels. There was no landed catch by foreign vessels in Rarotonga for 2017 and 2018.

Table 2-8: Catch landed at Avatiu Port (MT)

	2014	2015	2016	2017	2018(p)
Cook Islands flagged vessels					
Fresh catches offloaded	194	188	179	286	173
Fresh catches to be exported by airfreight	23	115	125	25	8
Chinese flagged vessels					
Frozen by-catch sold locally	18	0	0	0	0
Frozen catches to be exported by sea freight	1,882	363	399	0	0
Total	**2,117**	**666**	**703**	**311**	**181**

The small-scale fishery remains an important economic activity for game-charter operators and artisanal fishermen. Improvements in catch data by island is expected in the near future, a result of incentivised reporting as part of a fuel subsidy program instituted by MMR.

The MMR in conjunction with the South Pacific Community (SPC) continues to upgrade MMR's fisheries information management capacity and capabilities through the integration of coastal monitoring and data collection methods, and the streamlining of this process through the use of electronic reporting mediums, such as the android 'Tails' application.

MMR noted improved coverage in artisanal data collection with the introduction of reporting initiatives such as the 'Tails' application. A significant outcome of this is that the technology can operate with limited internet connectivity, and provides a solution to the problems of geographic isolation that is experienced on many islands, and reducing administrative and resource costs related to data management and processing.

A fisheries development fee of $10,000 is charged to each foreign fishing license. In 2017, $300,000 was made available through administrative payments to support the local fishers comprising of $100,000 for the Cook Islands Fishing Association, $150,000 in small grants to individuals and $50,000 for the fishing clubs of the Pa Enua Tokerau (Northern Group).

The FAD program remains a top priority for MMR under the inshore and aquaculture division. From July 2018 to May 2019, a total of 18 successful Fish Aggregating Device (FAD) deployments were conducted in both the north and southern group islands. A total of 34 FAD's are active and are serviced and maintained by Fisheries Officers on each island, with assistance from some fishers. A number of projects complement national budgetary allocations to maintain the FAD program. This includes the Fisheries Development Facility, Ridge to Reef and EU-SFPA.

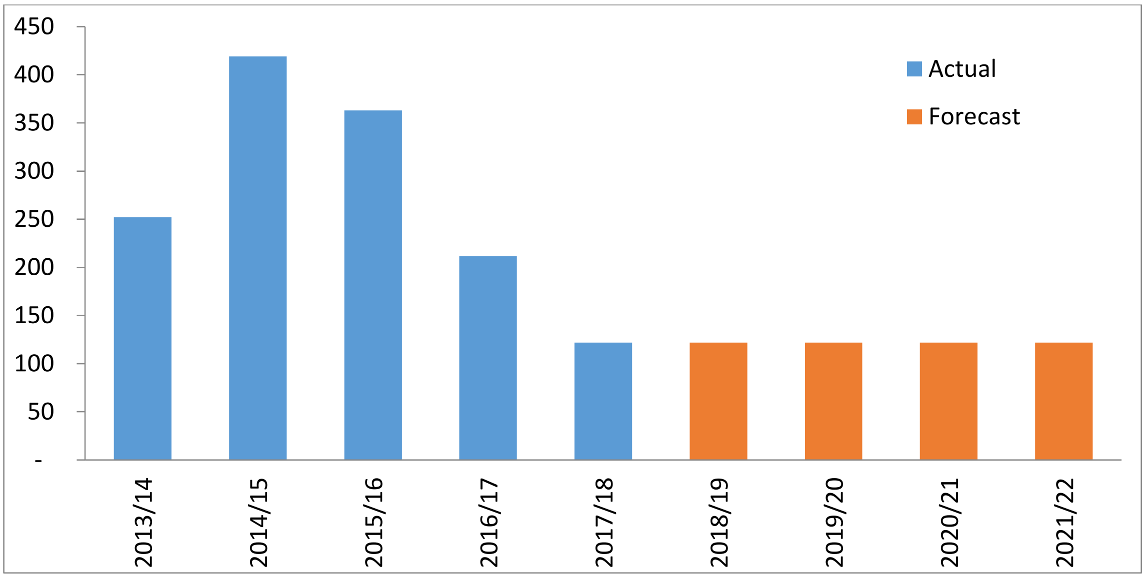
2.8.2 Black pearls

The pearl industry in the Cook Islands has declined markedly over the past 15 years. Total pearl exports reached an all-time high in 2000 at just over $18 million, however the industry saw a decline in the value of total exports as of 2003, following unregulated farming practices, poor oyster health conditions and bacterial disease. Since its peak in 2000, the industry reached a low of $191,000 in 2013. The industry has rebounded somewhat in recent years, however its value remains very low.

French Polynesia continues to be the major supplier of raw and finished black pearl products to the international market, keeping prices relatively low. Anecdotal information indicates increased imports of black pearl products from French Polynesia to the Cook Islands.

In 2017/18, the value of pearl and pearl shell exports fell to $122,000, down from $211,000 in 2016/17 (Figure 2-31). In the Cook Islands there has been a distinctive shift by major farmers investing in vertically integrated business models, with a focus on visitors and sales on the domestic market. As a result, export values are no longer representative of levels of production.

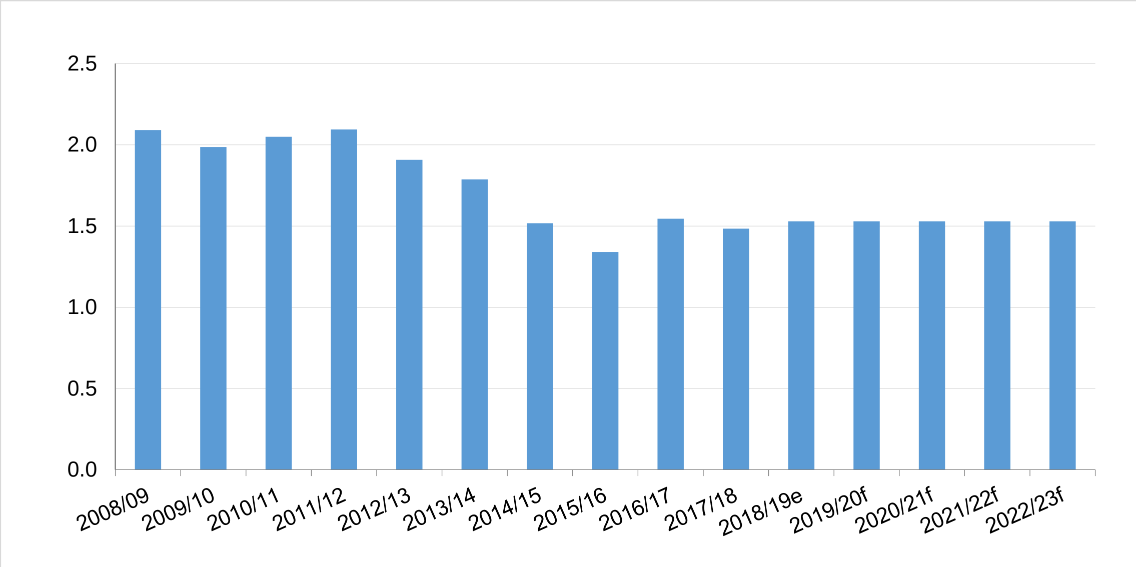
Figure 2-31: Pearl exports, 2012/13 to 2021/22 ($'000)



2.8.3 Economic contribution

The Fishing and Pearl sector, which accounted for less than one per cent of real GDP in 2017/18, contracted by 4 per cent from $1.54 million the previous year to $1.48 million, in real terms. A slight rebound is expected in 2018/19, rising to about $1.53 million. The outlook for the sector over the budget forecast period is steady, as shown in Figure 2-32.

Figure 2-32: Fisheries contribution to GDP, annual, 2008/09 to 2022/23 ($m real)



2.9 Agriculture

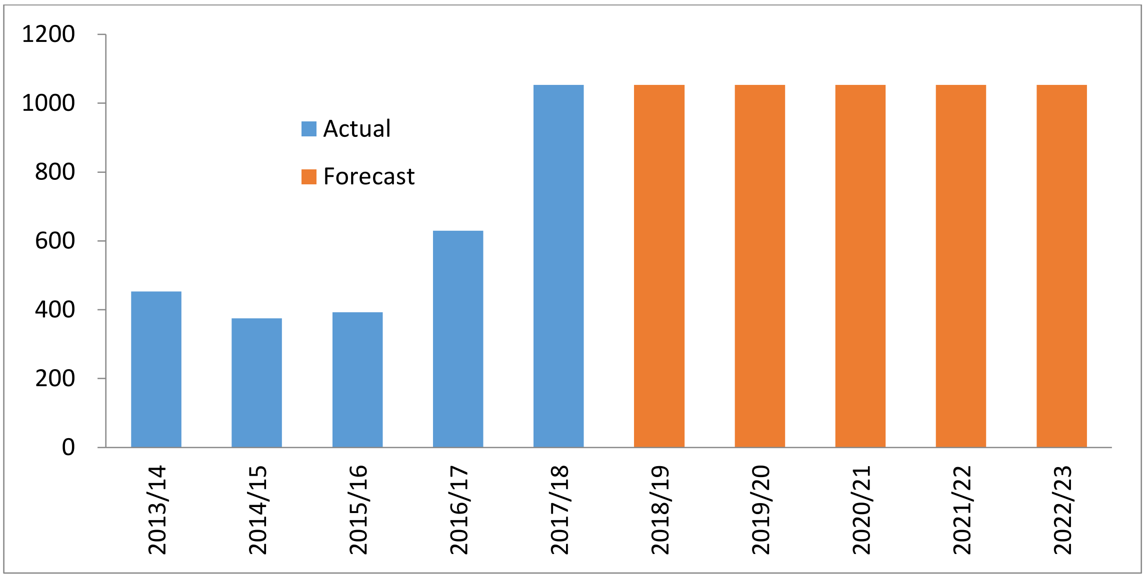
2.9.1 Agricultural activity and exports

The Agricultural sector accounted for about 2 per cent of real GDP in 2017/18, growing by about 1 per cent in 2017/18 from $10.58 million to $10.64 million in real terms.

This growth was underpinned by a significant expansion in agricultural exports in 2016/17 and 2017/18, following a decreases in 2015/16. Noni Juice remains the main export commodity product from the Cook Islands, with the primary export markets in Japan, China and, more recently, South Korea. Minor export volumes of processed agricultural products such as virgin coconut oil, vanilla extracts, A-grade vanilla beans and Tamanu seed oil extracts are some of the new export products that are increasing in demand.

Total agricultural exports, almost entirely comprised of Nono, rose from $630,000 in 2016/17 to just over $1 million in 2017/18, an increase of 67 per cent (see Figure 2-33).

Figure 2-33: Agriculture exports 2013/14 to 2022/23 ($'000)



A range of initiatives in Rarotonga and the Pa Enua have been established to improve the supply of fruit and vegetable products by strengthening up-stream supply chains.

In 2018, the Ministry distributed in excess of 150,000 propagated vegetable seedlings to 18 commercial farmers on Rarotonga, with production mainly for sales at supermarkets, local outlets, restaurants and hotels. Seeds of capsicums were distributed to the farmer associations on Aitutaki to assist with meeting local demand, whilst broccoli, cauliflower and cabbage seeds were distributed to the Puna on Mangaia.

During the latter part of 2018, 3 farmers on Mangaia shipped an estimated 250 heads of cabbages to 2 outlets on Rarotonga. A single farmer on Mangaia continues to supply 25 kg of capsicums and tomatoes to Prime Foods on a weekly basis. The sale of propagated seedlings to farmers on Rarotonga has assisted with enhancing the supply of vegetables to our markets.

During the first quarter of 2019, 48,600 seedlings of various vegetables - including tomatoes, capsicums, watermelons and cucumbers were supplied to farmers. A total of 7,866 seedlings of tomatoes were distributed during this period which could equate to $66,800 in gross income from an area of 1.45 acres, based on recommended spacing and management practices. This initiative also aims to support local production in bridging the gap of vegetable supply.

The Ministry of Agriculture, together with the Prison Services, commenced with a program to propagate and supply open pollinated organic seeds to farmers in the country, including the schools and women groups. The program has commenced with the extraction and packaging of seeds of Sweet Corn, Tomatoes and Eggplants. This initiative has received financial and technical resources through the Land Resources Division of the Secretariat of the Pacific Community.

Domestic hydroponic and summer vegetable production continues to grow, bridging the gap in fruit and vegetable supply value chains during the 'production off-season'. There has also been an increase in the number of hydroponics and summer house facilities on Rarotonga, Aitutaki and Northern Pa Enua. The Ministry of Agriculture is also investing in vanilla shade houses to boost production of this high value crop for export and the local market.

The Ministry of Agriculture has extended the new varieties (White Jade Pineapple, Rambutan, yam, taro), and material support towards the FAO Fruit Tree and Vegetable Model Orchard Farms, implemented by the Cook Islands Chamber of Commerce in their Agribusiness training program. This has now expanded to Aitutaki, Mangaia, Mauke, Atiu – the Agricultural Fruit Tree Production and training of Growers, and crop banks on each islands under the Ridge to Reef program (R2R) and the Pa Enua Action for Resilient Livelihood (PEARL) projects.

The Cook Islands has considerable potential to meet the increased for local agricultural production (products such as drinking coconuts, coffee and cocoa, root crops, ornamentals, tropical fruits, vegetables, honey production, processing and value adding products, including handicraft products). Despite this potential, there are a number of constraints that limit growth in the agriculture sector:

- substandard biosecurity treatment facilities to meet our SPS requirements for international market access and compliance with importing/exporting country's quarantine requirements for fruit flies and other pests
- issues related to labour shortages and, and in some cases, higher level local wages
- low or lack of agricultural water access and supply
- inexperience and failures in supply chain coordination, and
- high transport costs to get produce to markets.

The MOA is establishing better data systems to ensure that more robust information and resources are available to help the ministry and farmers better understand the various challenges and trends in the agricultural industry.

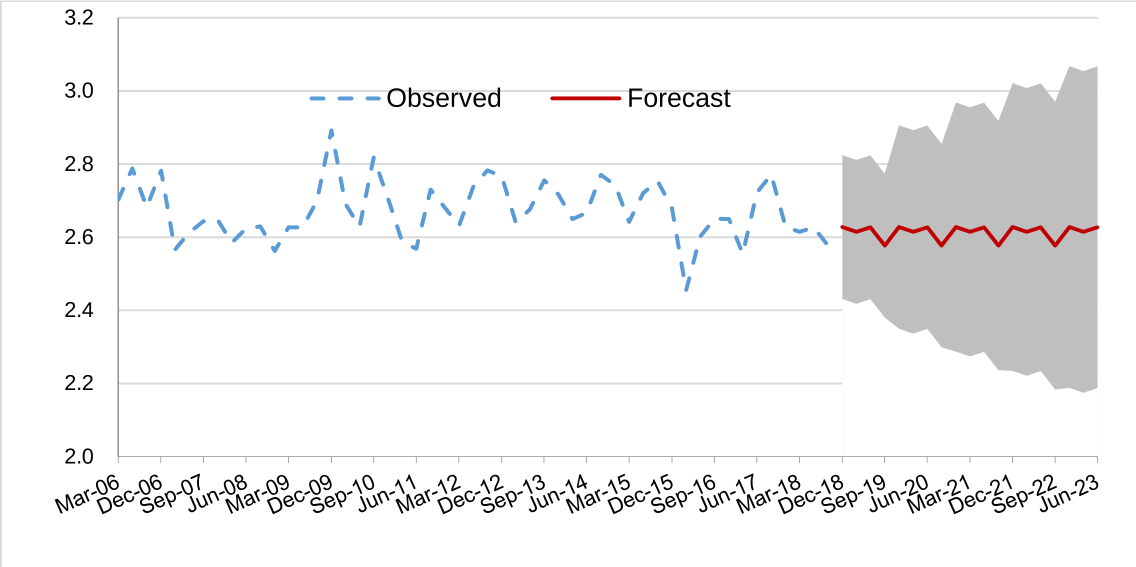
Since the establishment of the AgINTEL data system, the Ministry of Agriculture have been releasing Punanga Nui Market data based on agricultural produce which helps farmers understand the market better in terms of price and demand. This data system helps record market information and monitor changes while providing crucial data to farmers and growers allowing them to supply areas of shortfall in production.

The Ministry of Agriculture has also extended this data system to the southern Pa Enua in 2017 and the first quarterly report on agricultural production will be released 2nd quarter of 2019. It will be the first time the Ministry monitors the agriculture sector in the Pa Enua based on data. Agriculture data for the whole country is currently lacking in some areas, since other islands particularly the northern group are not covered. However the Ministry of Agriculture is now in the process of developing MoU's for each of the Northern Pa Enua with the Island Government to allow the Ministry of Agriculture to work directly with each agriculture department on these Islands. It is expected that by 2020, the Ministry will be delivering training programs to build up the capacity for the agriculture staff on each island and at the same time to introduce AgINTEL data system in the Northern Pa Enua. This method is adopted from the same approach untaken by the Ministry of Agriculture in the Southern Pa Enua in 2016.

2.9.2 Economic contribution

A steady economic outlook for the agriculture sector is expected over the budget forecast period, as shown in Figure 2-34.

Figure 2-34: Agriculture contribution to GDP, quarterly, 200/07 to 2022/23 ($ million real)



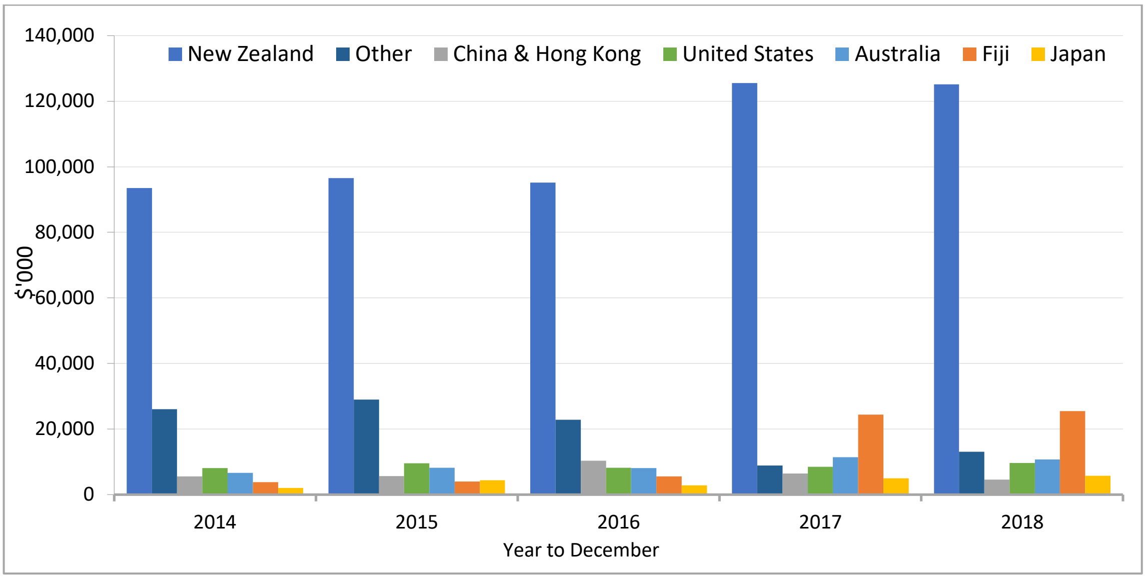
2.10 Goods imports and exports

2.10.1 Goods imports

Due to the size and geography of the Cook Islands, the country is highly reliant on the import of goods.

In the year to December 2018, the total value of imports into the Cook Islands rose by 2.2 per cent from $190 million to $194 million, the vast majority from New Zealand (see Figure 2-35). The primary driver of the increase was minerals and fuels, beverages and tobacco and crude materials, which more than offset falls in machines and transport, basic manufactures and food and live animals.

Figure 2-35: Import value by country of origin, year to December ($'000)



Looking forward, import growth is expected to moderate further from 2019/20, averaging about 2.3 per cent per year, for two reasons (see Figure 2-36). The first relates to the maturation of the current large capital projects, which will further reduce the importation of machines, transport and equipment. The second is the expected slowdown in the growth of tourism arrivals which should drive lower growth in the importation of food.

Figure 2-36: Value of total goods imports, quarterly, 2007 to 2023 ($'000)

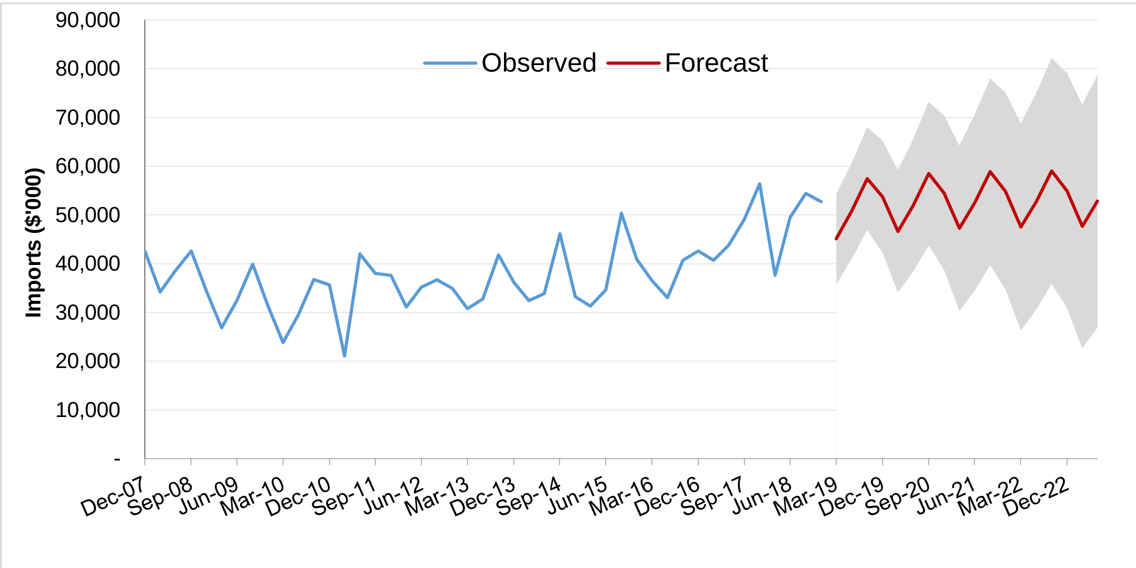
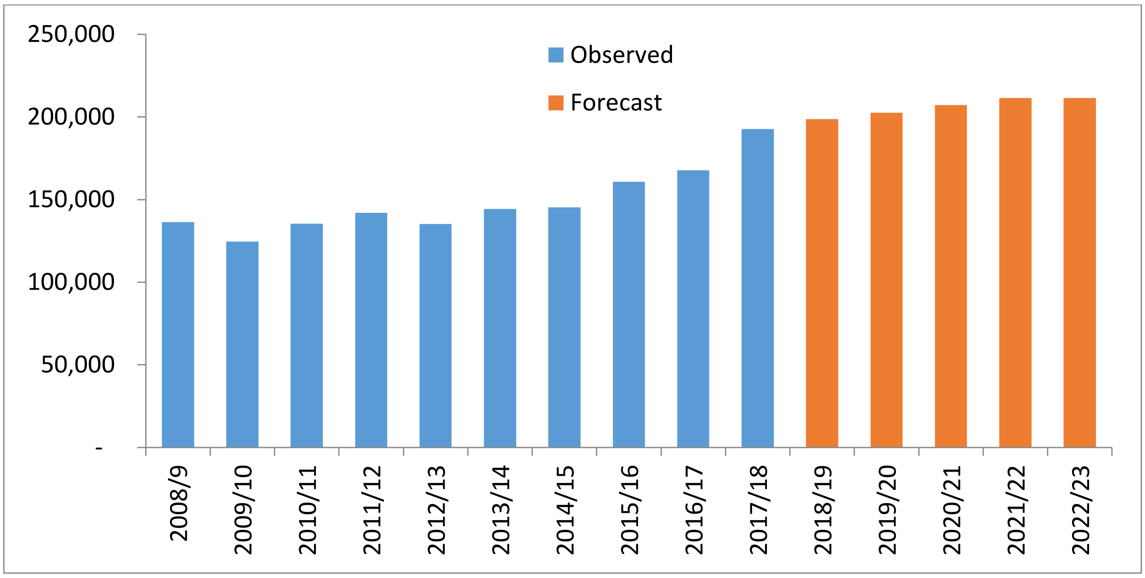


Figure 2-37 shows the projected annual value of total goods imports over the forward budget period.

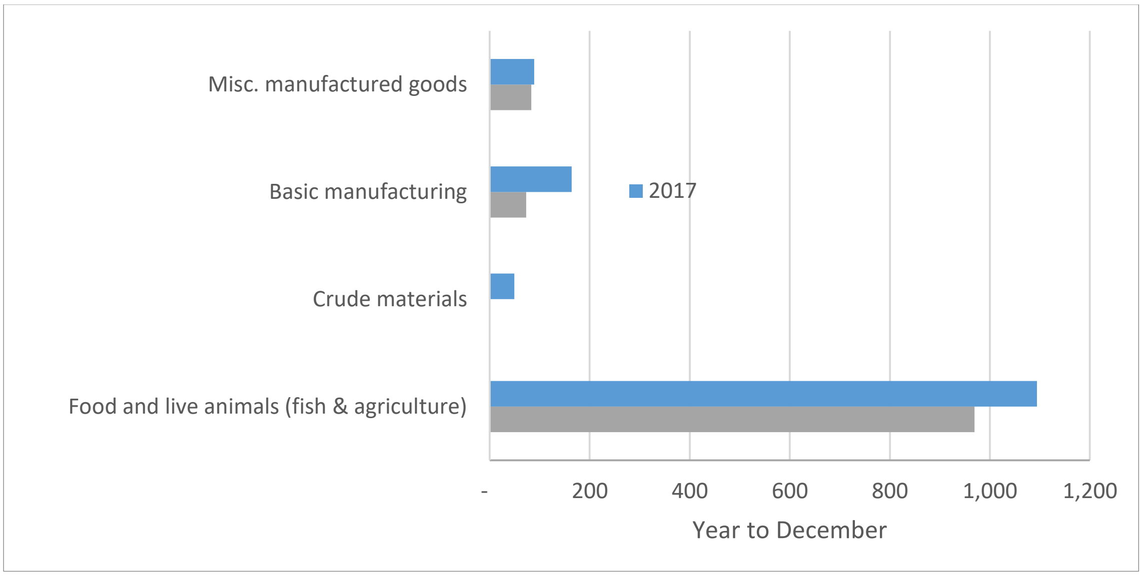
Figure 2-37: Value of total imports, annual, 2008/09 to 2022/23 ($'000)



2.10.2 Goods exports

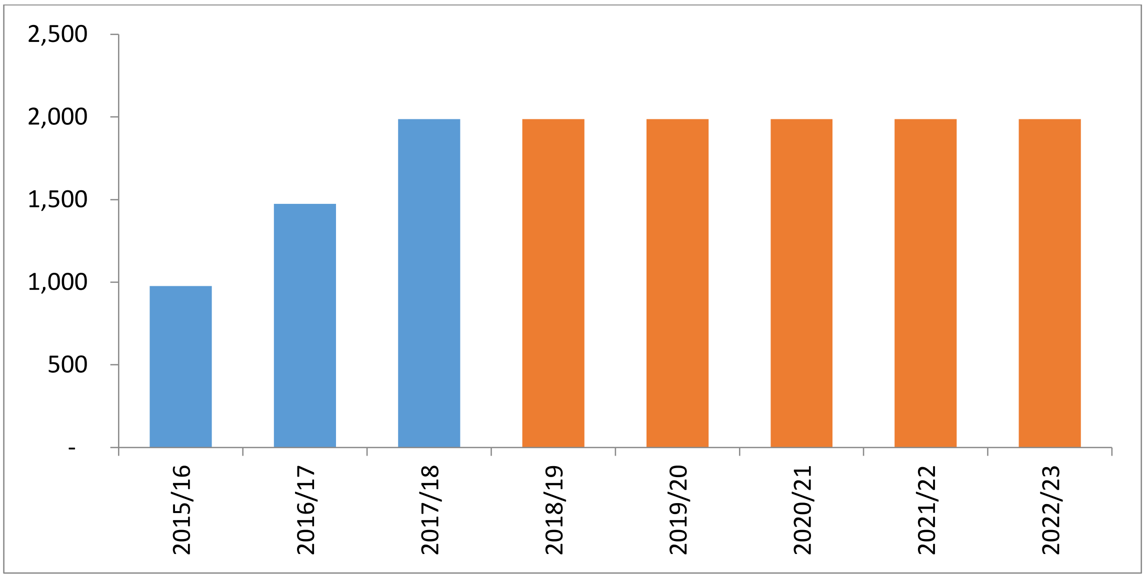
Total goods exports fell in the year to December 2018 by 18.5 per cent to $1.1 million. This fall is largely attributed a decline of 11 per cent in the export value of food and live animals and a drop in basic manufacturing export value by 56 per cent (see Figure 2-38).

Figure 2-38: Major goods exports, 2017 to 2018 ($'000)



Looking forward, the value of goods exports is expected to remain steady, as shown in Figure 2-39.

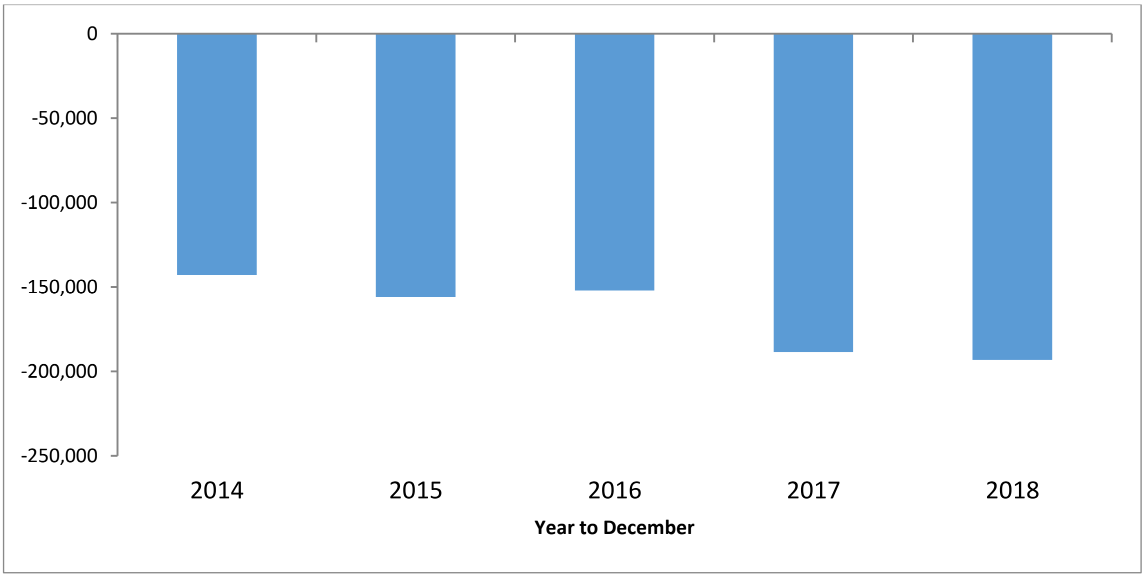
Figure 2-39: Total goods exports 2015/16 to 2022/23 ($'000)



2.10.3 Merchandise balance of trade

As a result of the positive growth in imports and fall in exports, a negative merchandise balance of $193.1 million is estimated for the year to December 2018, an increase from the negative $188.6 million in 2017 (see Figure 2-40).

Figure 2-40: Merchandise balance of trade, 2014 to 2018 ($'000)

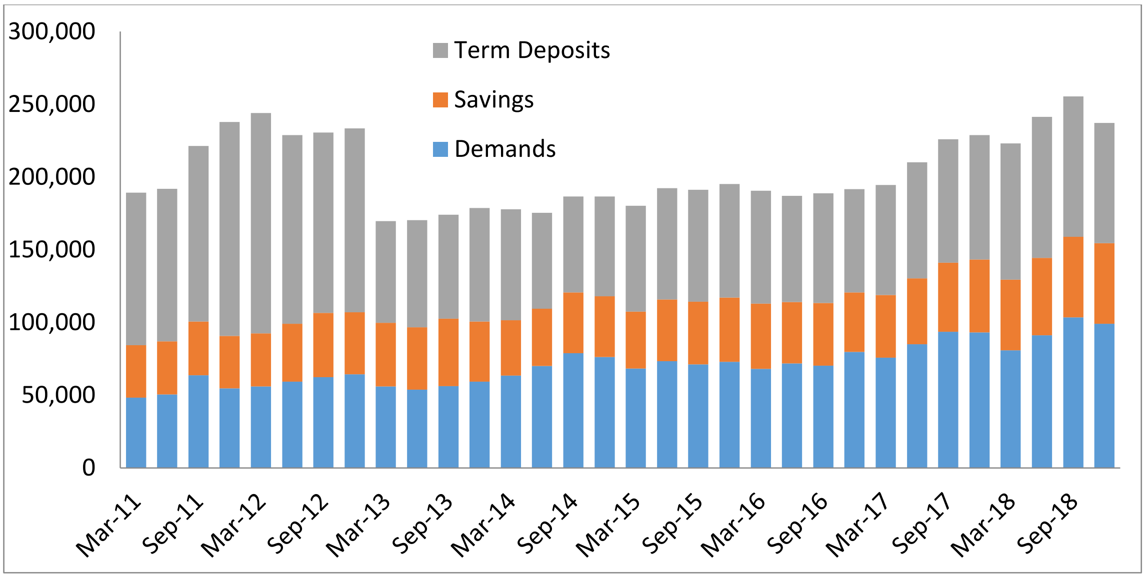


2.11 Banking and finance

2.11.1 Deposits

Total deposits in Cook Islands banks in December 2018 when compared to December 2017 rose by 4 per cent from $228.3 million to $237.1 million. The key driver of this increase, about 71 per cent, was a steep rise in demand deposits, from $93.2 million to $99.1 million. In contrast, term deposits feel by 3 per cent over this period.

Figure 2-41: Total value of bank deposits, March 2011 to December 2018 ($'000)

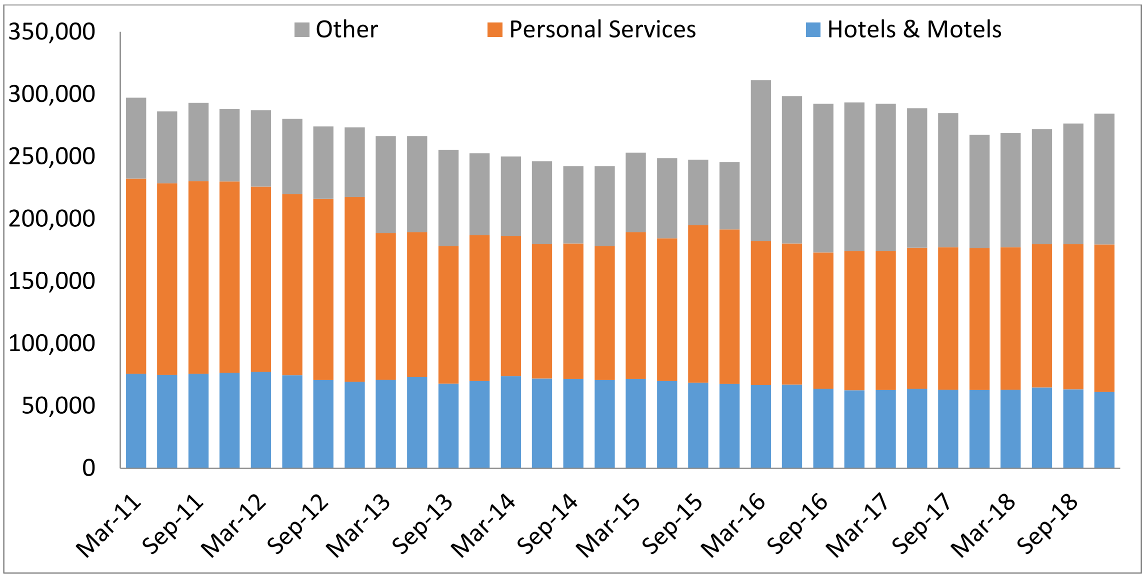


2.11.2 Loans

Lending by Cook Islands banks is dominated by loans to the Personal services, Hotel and motels and Finance and business industry sectors. In December 2018, these sectors accounted for 42, 22 and 16 per cent of the total loan portfolio, respectively.

Total lending by Cook Islands banks in December 2018, when compared to December 2017, rose by 6 per cent from $267.5 million to $284.5 million (see Figure 2-42). Agriculture and fishing, Transport and communications, Finance and business and Personal services categories all recorded increases, with Wholesale and retail trade and, Hotels and motels and Public administration recording decreases. Wholesale and retail trade loans fell by 22 per cent from $12.2 million in December 2017 to $9.5 million a year later.

Figure 2-42: Total value of bank loans, March 2011 to December 2018 ($'000)



2.12 Financial services industry

2.12.1 The industry

The Financial Services Development Authority (FSDA) was established in 2009 pursuant to the Financial Services Development Act 2009. It is a Cook Islands Government agency tasked with encouraging promoting and developing the Cook Islands financial services industry. The financial services industry, by statutory definition, includes those Cook Islands businesses licensed to carry on banking, insurance and trustee company business, both domestically and internationally.

The financial services industry currently accounts for approximately 5 per cent of total employment in the Cook Islands.

In light of the global push for international standards on transparency and exchange of financial information and the fight against financial crimes such as money laundering and tax evasion, the financial services industry has faced and dealt with many challenges to meet those standards whilst remaining competitive and productive. The Cook Islands has clearly demonstrated its commitment to meeting its international obligations.

The Cook Islands is a member of the OECD's Global Forum on Transparency and Exchange of Information for Tax Purposes. In 2015 the Forum's Phase 2 Peer review rated the Cook Islands as "largely compliant", a very positive result for the Cook Islands. The next Global Forum Peer review is scheduled for the second half of 2019.

The Cook Islands has passed laws to ensure its financial institutions comply with the OECD's Common Reporting Standard requiring the automatic exchange of an individual's financial information with the country where that individual is tax resident. Similarly, the Cook Islands has passed laws specifically requiring that financial institutions provide the United States (US) Internal Revenue Service with financial information held on US taxpayers.

In October 2018, the Financial Action Task Force (FATF) published the Cook Islands second Mutual Evaluation Report (MER), the first being in 2009. The FATF is an inter-governmental body responsible for policy making on international AML/CFT standards. The evaluation process took 18-months. The Cook Islands rated “largely compliant” or above on 38 of the FATF’s 40 recommendations for technical compliance. This has not been surpassed by any other jurisdiction. The Cook Islands also obtained five “substantial” ratings for the effectiveness of its AML/CFT regime. The 2018 MER is a significant achievement for the Cook Islands.

In 2017 the European Union (EU) commenced its good tax governance initiative whereby it assessed over 90 countries against its criteria of transparency, fair taxation and compliance with the OECD’s anti-base erosion and profit shifting measures. The EU assessed the Cook Islands and identified certain areas that it considers amount to preferential and harmful tax regimes. The Cook Islands has been given until the end of 2019 to address these concerns. The international financial services industry, and in particular the business of the licensed trustee companies, will be most affected by the changes required by the EU.

The licensed trustee companies are responsible for the administration of approximately 3,500 entities and trusts registered on the Cook Islands international registers. The registration and renewal fees derived by Government from these entities/trusts in 2019/20 is estimated at $1.3 million. The growth of these numbers depends on the impact of international regulatory requirements and the licensed trustee companies’ ability to operate efficiently and diversify with innovation. Product development will be essential to growth. The primary market for the services of licensed trustee companies remains the USA, however efforts are being made to develop an Asian market.

2.11.2 Economic contribution

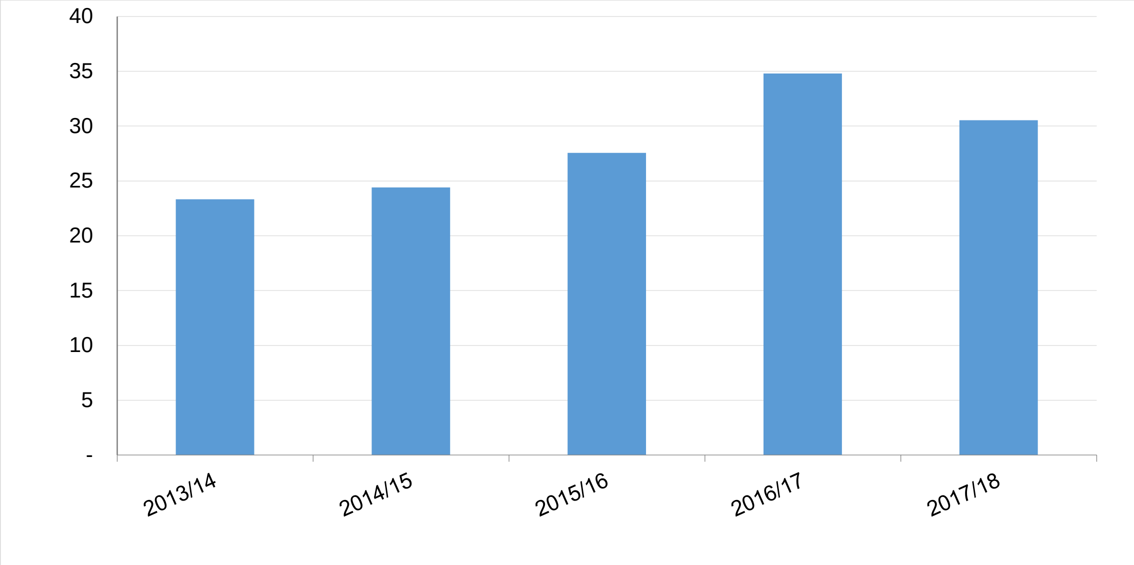
Financial services industry – domestic and international

The financial services industry, which includes trustee companies, banks, insurance companies and money exchangers, employs over 260 staff, accounting for approximately 5.3 per cent of total employment in the Cook Islands.[6]

The Cook Islands Statistics Office identifies the financial services industry as the finance and insurance sector. The finance and insurance sector’s contribution to GDP, shown in Figure 2-43, has fallen from $34.8 million in 2016/17 to $30.5 million in 2017/18.

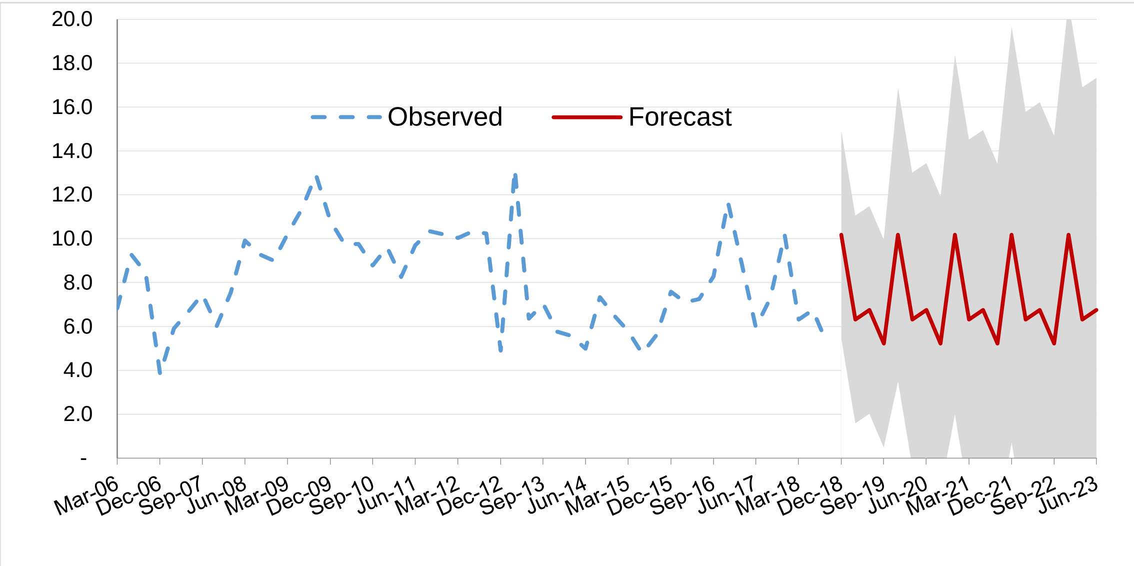
[6] Based on surveys conducted in February 2017 and February 2018 by the Financial Services Development Authority. The employment rate is estimated using the number of active Cook Islands National Superannuation Fund members as a proxy for total employees in the Cook Islands, which was 4,906 as at March 2018.

Figure 2-43: Finance and insurance contribution to real GDP, 2013/14 to 2017/18 ($'000)



Going forward, the steady state medium-term forecast for the finance and insurance sector is shown in Figure 2-29.

Figure 2-44: Finance and insurance sector forecast, 2006 to 2023 ($ million real)



International component

In November 2018, MFEM requested technical assistance from the International Monetary Fund's (IMF) Pacific Financial Technical Assistance Centre (PFTAC) to estimate the economic and revenue contributions of the international financial services industry in the Cook Islands.[7] The IMF report defined the international financial services industry as the activities of the eight licensed trustee companies, the ship registry, the Financial Supervisory Commission, the

[7] IMF (2019). Cook Islands International Financial Services Industry. Iris Claus, PFTAC Technical Assistance Report, April 2019 (forthcoming).

FSDA and the one Cook Islands licensed bank that carries on business in the international financial services sector.

The IMF report measured both the direct contribution of the international financial services industry to Cook Islands Gross Domestic Product (GDP) and the indirect contribution through two channels: the goods and services that the industry purchases from other suppliers; and through the business that the international financial services providers create for other sectors of the economy, including banking services, captive insurance, and business travel.

The report estimated that between 2010 and 2017 the total, direct and indirect, contribution to GDP of the international financial services industry has fluctuated between 3.8 and 4.8 per cent. The direct contribution has increased from $12.5 million in 2010 to $14.9 million in 2017, while the indirect contribution has remained flat, averaging around $3.5 million per year. The indirect contribution has remained unchanged because purchases of production inputs from other businesses in the Cook Islands have been falling.

Abbreviations and acronyms

ADB	Asian Development Bank
APG	Asia Pacific Group on Money Laundering
ARIMA	Autoregressive integrated moving average
CPI	Consumer price index
CRS	Common Reporting Standard
FAO	Food and Agriculture Organisation
FRR	Fiscal Responsibility Ratio
EU	European Union
GDP	Gross Domestic Product
IMF	International Monetary Fund
MER	Mutual Evaluation Report
MOA	Ministry of Agriculture
MFEM	Ministry of Finance and Economic Management
MMR	Ministry of Marine Resources
MT	Metric tonne
MTBF	Medium-term Budget Framework
MTFF	Medium-term Fiscal Framework
QMS	Quota Management System
NZ	New Zealand
NZ	New Zealand dollar
ODA	Official Development Assistance
OECD	Organisation of Economic Cooperation and Development
RBA	Reserve Bank of Australia
RBNZ	Reserve Bank of New Zealand
TIEA	tax information exchange agreements
US	United States
USD	United States dollar

VAT	Value-added tax
WCPFC	Western Central Pacific Fisheries Commission
YOY	Year on year