



OFFICE OF THE PRIME MINISTER

HON MARK BROWN

GOVERNMENT OF THE COOK ISLANDS

PRIME MINISTER'S BUDGET 2022/23 STATEMENT

23 May 2022

Kia Orana Mr Speaker, Members, Queen's Representative Sir Tom Marsters and Lady Marsters and family, Ui Ariki and Aronga Mana, Island governments, Religious Advisory Council and denominations, and my fellow Cook Islanders both in the Pa Enuā and here on Rarotonga. It is my honour and privilege to present to you my 12th Budget as your Minister of Finance.

Mr Speaker, the last two years have been tough. As a country we have faced many challenges. With our borders closed for many months, we have experienced the largest economic recession in Cook Islands' history, and one of the largest economic impacts in the world.

We have seen many of our people – both Cook Islanders and migrant workers – leave the country for opportunities elsewhere. And this year, after two years of keeping the virus out, we have allowed COVID-19 to enter our community, but only on our terms.

But Mr Speaker, as a country our people have risen to face these enormous challenges together. And we are prevailing.

I want to say again how proud I am of the way our country and our people have come together in our battle against this COVID Pandemic. We, your government, have not underestimated the struggle many, just like us, have faced. But we have not been alone in this struggle, we have faced them together as a nation, a nation I am very proud to lead. This is our third Budget since the start of the Pandemic. In the last two Budgets we showed strong decisive leadership and made bold decisions to show that by working together we would keep our people safe, and we would support our people through those tough times. Today I am asking you to keep that faith.

Budget 2020 was the Budget of Blessings. While our economy was hit hard, we were blessed in that we were in a position of financial strength and moved quickly to ensure that the worst of the storm had missed our little paradise. The 2020 Budget set the foundation for our response to the Pandemic, supporting our economy through a stimulus and support package valued at around 20% of our GDP.

Since then, we have supported hundreds of our Cook Islands businesses from the start of the Pandemic – paying over \$104 million dollars in wage subsidies, business, and sole trader grants, as well as training grants.

Budget 2021 was the Revival Budget. The Revival Budget focused on critical measures to protect our people and stimulate the economy, as we moved from Response to Recovery.

And we can see that our health response and economic stimulus measures have been working. Even with our borders closed for six months of this year and Omicron entering our community in February, this year our economy has grown by 11.5% – the first step in our recovery. Our economic heart is still beating, and it is starting to beat stronger and faster.

Much of this growth is due to our borders reopening in January and visitors returning to the country. At the end of last year, in December, we had to make a critical decision. Do we listen to the fearmongering of the Opposition and T&M Heather and the United Party to keep our border closed or do we follow the science and the medical advice? It was a bold decision, but I know that we made the right one. Because this was a decision which affected everyone in the Cook Islands. To open our borders again, knowing that doing so would allow COVID into the country, but that not doing so would be an even worse outcome for all of our people.

We needed to allow time for Te Marae Ora to be ready, and over the past two years they have prepared, knowing that the day would come that we would have to face the virus. And they, and our people, prepared well. Our vaccination rate is amongst the best in the world, and we have upgraded our health systems and our testing capacity. When we reopened our border, all of our preparations paid off. Covid came to our country, but it came on our terms.

Since we detected our first Omicron infection on 15 February, we have recorded over 5300 cases, and just one death. While that one death still hurts, and while isolation and quarantine measures have led to disruptions to many businesses, we are incredibly fortunate to be in the position we are in today. With no serious cases or hospitalisations due to COVID. It is not luck that has seen us reach this point, but diligence, hard work and careful management and our faith – our high vaccination rates and our preparations and our prayers have kept us safe.

From an economic perspective, we expect to see over 50,000 tourists by the end of June. Those tourists are bringing in vital dollars to our economy, supporting and

creating new jobs and business. So far, we have successfully balanced the risk of opening our borders, and we will continue working hard to do so.

Mr Speaker, before I introduce this year's Budget, there are Government and community groups who have, and continue to work incredibly hard in responding to the pandemic, in particular Te Marae Ora and our community Puna organisations. I would like to take a moment to acknowledge them. I and our community do see your efforts, and we say thank you.

We would also not be in the position we are today without the generosity of our development partners, who have collectively provided \$103 million dollars over the last three years to support our response to the COVID-19 Pandemic. To the Australian Government, the People's Republic of China, Japan, the Asian Development Bank, amongst others. the Cook Islands Government offers you our sincere thanks.

And I would like to make special mention of the New Zealand Government, who provided \$50 million dollars in budgetary support this year, as well as almost \$700,000 dollars for vaccinations and RAT test kits. This has been a significant help in our response to the Pandemic. And New Zealand's additional commitment of \$40 million dollars in capital investment support will be critical in aiding our economic recovery as we move forward.

Mr Speaker, today's Budget shows the policies of the last two years have worked. We have held the faith in the measures introduced for our medical response and our economic response, and we are now in a stronger position than we thought possible even in December. Today's Budget shows that we are on the right path to recovery.

While no one will know when we will be done with COVID, as we look around at all that we have accomplished and the progress we have made, we can see that our journey has been, and continues to be a successful one against the enormous challenges that were before us.

We can be cautiously optimistic that now we have passed the peak of infections on Rarotonga and Aitutaki, and we are managing it in the Pa Enuā, and as travel continues to resume, that there will be better days ahead. Last year we saw the light at the end of the tunnel – now we are emerging out of the tunnel into the brightness of a new day. And if we keep the momentum of the last two years, not only will we make it through, but we will climb higher than we have ever been as a country. That is why, Mr Speaker, the theme of this year's Budget is "Keeping the faith."

By that, I mean keeping the faith in ourselves as a sovereign nation, in our ability to overcome adversity, and in our support for one another as people. Keeping the faith in the course we are taking to regrow our economy. And, Mr Speaker, keeping the faith in our government and that we will continue to guide our nation for the betterment of all our people.

Mr Speaker, today's Budget shows that despite the uncertainties ahead, the Cook Islands' economic outlook is showing early but positive signs of moving out of the depths of the pandemic and moving back towards the prosperity we experienced prior to the pandemic. Back to our graduated status as a high-income country.

Following a decrease of 23.4% over 2019/20 and 2020/21, our Gross Domestic Product, or GDP, is on the rise again. We expect GDP to grow by 11.5% in 2021/22, and again by around 14% in 22/23. This is a very strong growth rate, but this is not at all unusual when recovering from an economic shock like we have had.

However, we expect to see higher inflation over the next couple of years, mostly due to global supply issues and the Russian war with Ukraine. On the short-term we expect prices to increase by 4.3% in 2021/22 and 3.9% in 2022/23.

This inflation is not something Government can control, as it is coming from outside of our country. And it will affect Government as it will affect our people, through rising costs.

And despite a significant reduction in national income and having to climb out of our deepest recession in history, this budget Mr Speaker, will still manage to give some increases to our vulnerable. This Budget includes measures to provide some immediate relief for the vulnerable in our society, while in the longer term the work done through our Economic Recovery Roadmap will help reduce the impact of inflation.

Mr Speaker, earlier this year I promised to increase pensions in response to rising inflation. Today I am fulfilling that promise. Our mamas and papas on fixed retirement incomes, both in Rarotonga and the Pa Enua, will feel the pinch as the cost of bread, fuel and other necessities increases.

From 1 July, the Old Age Pension will increase by \$20 per month. This means that people aged 60-69 will now receive \$520 a month and people aged 70+ will now receive \$720 a month. It is remarkable Mr Speaker that in this tight fiscal environment we were still able to provide an increase immediately.

To assist with the impacts of rising prices, the Government has also decided to increase the minimum wage from \$8 to \$8.50 per hour. For a worker on 35 hours per week, that is an additional \$900 a year, an increase of 6 and a quarter percent.

There is a simple rule that I keep in mind as your Minister of Finance, it has kept our country's finances stable and growing over the last 12 years – you can only spend what you earn. And as a country our earnings had been growing at a high rate until COVID devastated the world. We were fortunate that we put money aside over the years of prosperity to allow us to protect our economy during the times turmoil.

We know that we will recover – our Economic Response over the last 2 years bought us time, time to get back on our feet and time to regrow our economy. That is why, even

though we have not got back to pre-covid financial levels, I am confident that increasing the support for our pensioners and low-income earners will be affordable as our economy gathers steam. And that first step will be determined by how quickly we see tourists return to our Islands.

The influx of tourism represents a welcome boost to the local economy. Tourist numbers have increased from 7,500 in 2020/21 to 50,300 in 2021/22. And we expect to see this trend continue, with 121 thousand visitors in 2022/23 and 165 thousand visitors in 2023/24 as we continue to rebuild our tourist markets.

But we know that we must look beyond tourism to grow our economy over the longer term. I have said before that economic diversification has been on our agenda for a long time, and this challenge cannot be addressed overnight.

We know that to support our private sector to invest in new industries we need to first have the right economic foundations in place. This means providing better internet connectivity in the Pa Enea, taking more business practices online, and ensuring our business and investment laws provide an enabling environment for all types of businesses.

Be assured Mr Speaker, that through the ERR measures, this Government is providing a solid economic foundation for diversification. One need only look at our emerging Seabed Minerals programme to see that significant millions will be spent on exploring and gaining knowledge of our deep ocean. We expect some of that investment to spill over to our domestic economy as it has already started.

Turning towards fiscal responsibility now Mr Speaker, this year's Budget moves us towards a more neutral fiscal stance, as we begin to unwind short-term stimulus measures in favour of longer-term reforms and investment in infrastructure.

By this, I mean as we move from the 'Response' to Recovery' phase of the Pandemic, Government spending shifts more towards 'business-as-usual.' We still need to spend to stimulate our economy, but we will move our focus from measures such as the Wage Subsidy and Business Grants to infrastructure investment that keeps our people employed. In 2021 the Government agreed to revise our fiscal rules. The whole world has changed and what worked before does not work now. We need to change the fiscal rules to be able to compete in this new world. These are the rules that guide how much we can spend each year. The scale of the economic shock, and the debt that Government has taken on to support our private sector over the past years, meant that the rules we had before were not right for where we are today.

There are two important changes, the first is that it is now Government's cash reserves that are the most important rule, and the second is that we have increased our net debt ratio, what percent of GDP we can borrow. We have increased this ratio to a maximum of 65% of GDP, and this sounds like a very high amount, but it is in fact now quite a normal level by international standards, and our team at the Ministry of Finance have

assured me that it is a sustainable level. I must also assure you, Mr Speaker that we have not borrowed to this level, it is simply what the rule allows us to do.

These two rules together mean that we need to keep some cash in the bank, and that we can only borrow so much to do that. This is important to ensure the government has enough money available to respond to an economic shock or a natural disaster. For example, if a large cyclone were to impact one or more of our islands, and cause a halt to our revenues, the Government would need enough cash to respond and to cover our operations.

In 2022/23, we have again had to depart from our fiscal rules to help manage the recovery. This gives us a little more flexibility to respond to the needs of the economy as it gets on its feet again, allowing us to invest extra funds into the Economic Recovery Roadmap, and our ongoing response to COVID-19 whilst we protect our people in the Pa Enua.

Our cash position has improved by over \$35 million since the 2021/22 Budget, helping us to support the economy in recovery.

And while it is early to say for sure, if the economy recovers as we expect it to, we will be able to meet all the rules in the 2023 Budget. Our economists and budget team at MFEM, as they rightly should, take a very conservative approach to forecasting, but as we all should know by now, I am an optimistic man, and history tells me that we will do better. For example, visitor arrivals in April were already almost 2000 higher than had been assumed in preparing this Budget – this shows the potential for even better outcomes than we planned for.

Funding our response to the Pandemic has come at a steep cost, we borrowed \$130 million dollars to fund our response to COVID. This is a large increase in debt, but an increase without an alternative. If we did not do what was needed to keep our businesses and people afloat and alive then the consequences would have been much worse. Businesses would have gone bankrupt; loans would have been foreclosed and homes lost and sold off. We would have lost a lot more of our people to NZ and Australia, people's savings would have been lost and we would have regressed to 3rd world country living standards.

Even worse would have been the impact of what economists call economic scarring, where our economy would have been reduced to such a poor state as to never being able to recover on its own. Your government saw this consequence and made the bold decision to ensure this did not happen. We knew what we needed to do as a country to respond and to keep our economy alive.

The increase in debt, and the need to repay it with interest, will be a key challenge for us. Our debt servicing costs are forecast to increase to over \$30 million per year by the end of this decade. This is three times our current servicing costs and will demand a significant part of our revenue.

That is why we along with our fellow Pacific Island countries are talking with our funding partners about restructuring our debt so that debt servicing can be maintained to sustainable levels. Capping our debt repayments over the short term is necessary, so we can continue to focus investment on growing the economy and lifting standards of living. Increasing productivity quickly is the key to avoiding debt distress.

And despite the opposition calling for cuts to public spending – now is not the time for austerity.

Government still needs to stimulate the economy and provide fiscal interventions to help us get back on track, and we will continue do this through the Economy Recovery Roadmap and the capital investment program.

This time last year I announced the Economic Recovery Roadmap, or ERR, as our guide out of the biggest recession our country has ever had. The ERR prioritises elements of the Economic Development Strategy that we announced in 2019, just as COVID-19 was emerging.

Unfortunately, the extended border closure from August 2021 also meant that we had to re-shift back to the continuation of Economic Response and the measures, such as the Wage Subsidy and Business Grants. We have spent the vast majority of ERR funds – more than \$42 million this year – on financially supporting our people. It has been a large, but necessary cost.

With things starting to look up now, our focus is again turned to the policies and reforms that will help guide our recovery. This year's Budget includes a further \$5.2 million for the ERR in 2022/23, and a total of \$8 million in the next four years. These are broad-ranging initiatives that are intended to address economic growth by reducing barriers to competition, growing our labour force, making Government more efficient, and by focusing our capital investment plans on projects that can offer a greater level of economic stimulus straight away.

You have heard me talk about the ERR workstreams before, so I will not go into detail here, other than to highlight the work that is being done right now to support our private sector businesses with streamlined immigration and reduced fees so that we can get our labour force back to where it needs to be to support our tourism industry. To our business owners, we have heard you, and we have responded.

The COVID-19 Medical Response Fund is a further important expenditure item in the 2022/23 Budget. These funds have been allocated to continue our response to COVID-19, strengthening our medical services particularly in the Pa Enea, and being ready to respond as the pandemic makes its way through our Pa Enea.

While we pray to God for his mercies to our small nation, we also know that God helps those who help themselves, and to this end, we have allocated \$5 million dollars to this

important work. We also pray that we will not need to spend any of it, but we are ready if we need to.

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

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

In this Budget, Government has focused on projects that are either already in progress or development in order to deliver economic stimulus to the Cook Islands. These are intended to employ local contractors and labour more quickly, like our airport slab replacement programme at the Rarotonga Airport, employing dozens of people, using new skills that we have learned to deliver a project of national importance.

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

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

This Budget also provides funding to continue the upgrades to the Government IT Network both on Rarotonga and in the Pa Enea, with hardware on Rarotonga to make the Government network more reliable, and to improve connectivity and facilities in the Pa Enea. We are working to implement a total technology refresh – upgrading the mobile network and migrating satellite services to the latest generation of the O3B mPOWER Satellite constellation. In Aitutaki, we are taking advantage of Manatua cable connectivity.

This upgrade underpins the universal access program which is intended to deliver better telecommunications connectivity to Pa Enea communities. These investments will benefit not just our Island Administrations and Government agencies in the Pa Enea, but they will also enable connectivity improvements that will benefit all of our population in the islands with faster and more reliable internet.

Better internet connectivity for the Pa Enea is important for many reasons. It improves the ability for government agencies in Rarotonga to work with the Island Administrations. It means we can offer improved medical services to the outer islands through online consultations. And it makes it easier for our retired people to move back

to these islands if they can be sure they will be able to continue their business affairs, keep up with their families and have access to medical care.

A better-connected Pa Enea benefits all of the Cook Islands.

These capital investments would not be possible without the support from our development partners. Collectively they provided \$65 million in 2021/22 and another \$20 million is planned in 2022/23. This has enabled us to continue working on these important projects and to keep our local people employed.

As well as spending through the Budget, the Government is actively discussing additional capital investment proposals with various partners. We continue to work with New Zealand on proposals to fund projects through the Infrastructure Trust Fund, with a strong emphasis on shovel ready projects that will keep our people in employment and support more economic stimulus.

Along with the increase in pension and our support for the minimum wage increase, this Budget includes funding for two other important groups – our healthcare workers and our teachers.

The Pandemic has highlighted the importance of having enough healthcare workers, and in particular a public health staff. This Budget includes additional funding of \$324,000 annually from 2022/23 – a total of \$1.37 million over the next four years – for additional healthcare workers.

This funding maintains the momentum of the last two years, by supporting a Public Health Coordinator, Health Intelligence Unit, additional Registered Nurses, and an ICT Systems Analyst.

But this Government is not only enhancing medical services, we are also making strong moves to address NCDs, through the NCD Strategic Action Plan, released last year. We have known for a long time that NCDs are harming too many of our people, and Te Marae Ora is working to prevent, control and mitigate these terrible diseases, rather than just being the ambulance at the bottom of the cliff.

Mr Speaker, this Government recognises the important role our puapii play in the lives of our tamariki. This Budget provides for the second tranche of teachers' salary increases, building on the changes rolled out in September last year – this funding amounts to a total of \$1.34 million over the next four years.

Mr Speaker, I leave you with a Budget that balances fiscal responsibility and the needs of our nation as we maintain the momentum of the past two years to lay the economic foundations for a speedy recovery and future growth.

Today's budget is about keeping the faith. Earlier on our papa Orometua mentioned the verse for today. I had a look myself at today's verse and can only say how appropriate it is for the theme of today's budget.

It comes from the book of Revelations Ch 19 verse 11-21. Its starts like this: *“Then I saw the heavens opened, and behold, a white horse! The one sitting on it is called Faithful and True, and in righteousness he judges and makes war.”*

Te ara tia no teia ra. No roto mai I te puka Apokalupo, te pene 19, irave 11-21. Te nako nei te akamataanga;

Kite atura oki au I te rangi I te vevete angaia, e I na, e oroenua teatea; e ko tei noo ki rungao ra, kua karangaia aia, i te Pikikaa-kore, e te Tuatua-mou, e akava aia, e tamaki I te tamaki, ma te tuatua-tika.

Ko te tuatua tika teia na Te Atua

Kia Orana tatau katoatoa, e kia manuia