



CITIZENS BUDGET GUIDE

The 2020/21 Budget is the second budget since the introduction of the Medium-term Fiscal Strategy (MTFS) in 2019/20, and re-confirms the Government's commitment to sound fiscal and economic management, within the context of a severe glob-

al and domestic economic shock. The advent of COVID-19 and the unprecedented scale of the subsequent economic shock has necessitated the Government to strengthen its response to the health and economic crisis.

Phase II of the Economic Response Plan centres around increasing investment to drive growth in the absence of tourism, while also maintaining a focus on economic policies to support health, economic activity and livelihoods.

PHASE II OF THE ECONOMIC RESPONSE PLAN



LIFELINE SUPPORTING LIVELIHOODS IMMEDIATELY

- Wage Subsidy
- Unemployment Benefit
- Emergency Hardship Fund
- Superannuation Contributions reduction to 1%
- Increase in Tax Free Threshold
- Te Aponga Uira discounts
- Sole Trader Cash Grants
- Interest Hibernation Scheme
- Business Continuity Credit Facility



RECOVERY KICK-STARTING GROWTH OVER THE MEDIUM-TERM

- Training Subsidy & Fees Free
- Accelerated Depreciation
- Business Growth Loan Program



TRANSFORMATION MOVING TO A SMARTER GREENER ECONOMY OVER THE LONG-TERM

- SMART Economy Initiatives
- SMART AgriTech Scheme
- Green Economy Initiative

The Government's focus in the 2020/21 Medium-term Budget is on supporting Cook Islands' households and businesses to manage the economic impacts of the pandemic during the immediate term, and to position the Cook Islands so that it can recover once the wider economic situation has stabilised.

ECONOMIC AND FISCAL UPDATE

The spread of COVID-19 in the third quarter triggered the closure of international borders by many countries, including the Cook Islands, New Zealand

and Australia. This resulted in a near instantaneous halt to tourism, triggering an economic shock to the Cook Islands, which, with a private sector with

approximately 65 per cent exposure to the tourism industry, caused an immediate impact to business turnover and revenue.

	2019/20 Estimated Actual	2020/21 Budget Estimate	2021/22 Projection	2022/23 Projection	2023/24 Projection
Nominal Gross Domestic Product (GDP) (\$m)	496.8	472.5	515.6	567.1	596.4
Total Operating Revenue (\$m)	189.8	125.2	159.5	184.2	187.0
Total Operating Expenditure (\$m)	189.0	232.0	172.4	171.8	173.6
Operating Balance (\$m)	0.8	-106.8	-12.9	12.3	13.4
Capital Expenditure	38.9	42.4	33.0	27.6	21.6
Depreciation	13.0	13.1	13.1	13.1	13.1
Fiscal Balance surplus/deficit (\$m)	-25.0	-136.1	-32.7	-2.2	5.0
Percentage of GDP	-5.0	-28.8	-6.3	-0.4	0.8

FISCAL RULES PERFORMANCE

Rules	Unit	Threshold	2019/20 Estimated Actual	2020/21 Budget Estimate	2021/22 Projection	2022/23 Projection	2023/24 Projection
Total Expenditure Growth	%	4	19.6	7.7	-25.2	-2.9	-2.2
Net debt to GDP	%	30 / 35	17.4	34.8	32.0	26.4	22.2
Fiscal balance to GDP	%	-1.9	-5.0	-28.8	-6.3	-0.4	0.8
Cash reserves	Months	3	5.1	0	0	0	0

The scale of the economic shock makes it fiscally responsible for Government to temporarily depart from the Fiscal Rules other than the Net Debt to GDP ratio, to fund a proportional response to the

challenges being faced by the Cook Islands' economy. This will result in a projected deficit operating balance in 2020/21 and 2021/22, followed by an expected recovery to surplus by 2022/23.

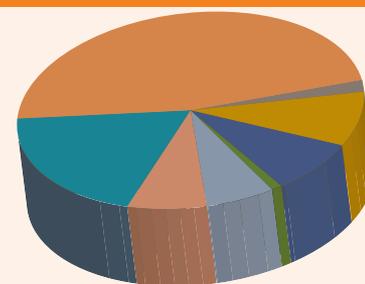
The timing of recovery is dependent on external factors, and in particular the reopening of the borders and tourist arrivals.

THE BREAKDOWN OF GOVERNMENT SPENDING BY KEY SECTORS OF DEVELOPMENT IS SHOWN IN THE CHART BELOW:

Economic affairs is the largest area of public expenditure, with more than half of total expenditure on this function relating to the COVID-19 Economic Response Plan in 2020/21 totalling \$64.0 million.

General public services is the next largest area of public expenditure at 20.1 per cent, with the Cook Islands government administration costs

being the main driver in this area. Housing and community amenities (which includes general community infrastructure) is the third largest area of spending at 8.8 per cent followed closely by expenditure through Health at 8.1 per cent which includes funding allocated for the COVID-19 Medical Response Fund.



KEY EXPENDITURE CHANGES:

CAPITAL

- CIIC - \$2.6 million to undertake the following building works and upgrades:
 - Government Building Projects - \$1.5 million – repair and maintain the National Auditorium, the Ministry of Justice building and the Cook Islands Police Services' headquarters.
 - Rarotonga Health Projects - \$170,000 – to design and construct a mental health facility, conduct electrical and oxygen delivery upgrades for the Rarotonga hospital and relocation of oral health services to the community.
 - Pa Enua Building Projects – Pa Enua - \$950,000 – refurbishment of the Aitutaki court house; upgrades to the doctor's residence, court house and school on the island of Atiu,

- complete renovation of the Pukapuka hospital
- Te Marae Ora – \$2.9 million towards health system strengthening
- Purchase CT scanner - \$1.3 million - Procurement of a computed tomography (CT) scan to improve diagnostic capability in country.
- ICT Upgrade - \$650,000 – to upgrade existing ICT technology across the Health network
- PCR Laboratory - \$900,000 – to strengthen in-country testing capabilities for infectious diseases like COVID-19, dengue, zika, chikungunya and hepatitis B.
- ICI - \$17.2 million for infrastructure upgrades
- Bridges and Structures - \$2.8

- million – Bridge structure replacement works, structural inspections and repairs to improve safety for the public
- Drainage Asset Management - \$950,000 – Improve drainage standards, as well as storm-water quality
- Emergency Management and Support Infrastructure - \$3.7 million – Construction of purpose built cyclone centres
- Pa Enua Air Infrastructure Improvement Programme - \$1.7 million – Improve key air infrastructure across the Pa Enua
- Road Asset Management and Improvement Programme - \$8.1 million - Undertake planned maintenance and improvement works to the road network

OPERATING EXPENSES

- Economic Response Plan – Phase II of the Government's Economic Response Plan, to be managed by MFEM, consists of new funds of \$64.0 million.
- COVID-19 Medical Response Fund – The medical response fund is continued with \$3.0 million in 2020/21 to facilitate costs related to reopening the borders and the potential for COVID-19 cases in the Cook Islands. This fund will also reside with MFEM.

PERSONNEL

- Deferral of Government Salary Increases:

Government-wide salary increases of approximately \$6.0 million for 2020/21 have been placed on hold until economic conditions have stabilised. These funds have been reprioritised to support ERP Phase II.