



Office of the Deputy Prime Minister

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Announcement by Deputy Prime Minister and Minister of Finance the Hon. Mark Brown
Cook Islands Covid-19 Economic Response Plan
2 April 2020, 6pm

Kia orana,

I would like to start this evening by thanking all of you who are contributing, and also those who have made those important first steps in obtaining necessary government support your businesses and employees, or yourselves.

We have seen great progress in the last 2 days with the number of applications coming in, particularly for the wage subsidy, and we are confident that we will commence making our payments on time. In addition, in March alone, the Revenue Management Division has processed over \$1 million in income tax and VAT refunds.

We have talked a lot recently about the Economic Response Package, and I know many of you are discussing it at home and on social media.

The overall response has been very positive, most of you agree with the reasons that Government has structured the package the way we have, and are strongly supportive. We are also aware that some of you have questions or concerns about some of the decisions we have made to date, and how we will manage the response as we go forward. I will try to address some of those concerns today.

The speed with which both the virus has spread and is still spreading around the world, and how rapidly our economic situation changed, has been incredible. We responded very quickly with the initial package, implementing actions to directly respond to the immediate impacts as fast as we could.

That response incorporated recommendations and feedback from a variety of sources within our country, including Government agencies and elements of the private sector, businesses, transport sector, importers, retailers, the Chamber of Commerce, and the banks. I would like to acknowledge the contribution of everyone who helped to get us to where we are now.

While the Response Plan is only in the first phase of roll-out, the team at MFEM have already started to look beyond, putting more meat on the bones of the next stage of the

Plan, which was outlined a mere few weeks ago. The team are now able to look deeper at what we can expect to happen, and how we need to respond.

Many uncertainties remain. We don't know

- how long the pandemic will last,
- if a cure or vaccine will be found any time soon,
- when global economies might start to recover,
- nor when tourism will be able to recover.

Best estimates are that it could be 6-9 months before we see real recovery starting. For us this depends both on ourselves, New Zealand and other countries. Once those other countries re-open their borders, then we will need to make decisions around our own borders. Those decisions will carry very real economic impacts, but also might have health impacts, and will be considered very carefully.

As we begin to build out our response plans to deal with what we do next, we will engage with more domestic stakeholders.

We were not able to engage with all stakeholders initially, time just didn't allow for it. But now we can take a little bit more time to assess and measure, and to make inclusive decisions. We can look at how effective the measures have been so far, and what else we might do.

We recognise those decisions impact all of us, so we will be reaching out to more stakeholders as we progress, including the House of Ariki, our Pa Enea communities and so forth.

And recognizing that this is not just a Cook Islands problem, but that it is a global problem, MFEM has set up a virtual 'think-tank', engaging some very experienced and in some cases very influential economists based in New Zealand, the UK and Australia. This team includes Cook Islanders, who can help guide and assess our plans.

The think-tank is not there to tell us what to do, but rather to help us understand the impacts of decisions that will be made by the Cook Islands government, and if they will be effective in reinforcing our economy.

Last night I mentioned that we have the ability to keep the economy running for 6 months, and some of you have asked, what about after that 6 months?

I want to reassure everyone on this point, and make it a little clearer. That is 6 months without any Government income at all. No taxes, no revenues.

But look around, not every business is shut. The economy is hurting, as I know many of you are, but there are businesses still running, imports are still arriving. Projects, both government and private, are still taking place.

Whilst the majority of our business is tourism related, there is approximately 35% of economic activity that is not. Government will still receive revenues, and we can get through more than 6 months – the supplementary budget shows that we can make it until 2021, without debt, if we continue to receive some revenue.

To help us get there, the team is already looking at cuts in Government's operating budget, prioritising some work over others, running a streamlined service focusing on the core government services, and improving our efficiency.

This might mean redirecting some government workers into different areas for a time, doing work outside their usual day-to-day. Perhaps supporting Te Marae Ora, or the Puna's. All options are on the table and the Public Service Commission has already started looking at how the public service will operate in a post COVID-19 state.

On this point I would like to address some recent comments that have been circulating in social media around government employment and pay, suggesting that Government employees should also experience redundancies or pay cuts.

I will say it clearly now, the Government has no intention of cutting employees or cutting pay rates for civil servants.

Many of you think back to '96 and the need for austerity, or cuts in Government expenditure. What we are facing now is totally different to '96, comparisons cannot, and should not be drawn.

As I have mentioned, the Government is tackling this crisis with stimulus, the opposite of austerity.

The reason for this is simple. Government makes up a large portion of the economy. If Government expenditure is reduced, the economy is also reduced – we cannot do this in the situation, where we have a sharp drop in tourism, and possible job losses.

Government has provided an economic response package that is a life raft for the country, slashing public sector jobs or salaries, is the equivalent to slashing the life raft, and I'll tell you why.

The Government workforce makes up just under 2000 employees, that's roughly 25 per cent of the Cook Islands population.

There are many families in the Cook Islands that benefit in some way from a government income, and with lost income elsewhere in the economy, those incomes becomes even more important for supporting families- we aren't like most western societies, our extended families often rely on a few income earners, particularly in the Pa Enea.

Salaries are one of Government's most effective means of getting cash out into the economy. If we cut government jobs or salaries, we cut the ability of people to spend,

less people will be able to buy things from the shop down the road, there will be less opportunity for people to support small business, this just further hurts our economy. At this point in time, more than ever before, we need a professional and motivated public service to maintain core services including medical, policing, social services, agriculture, infrastructure and planning.

Many of those staff are already going above and beyond to support our country, and if and when the virus arrives we will ask even more of them. The majority of Puna personnel are also public servants. They will be expected to do more than ever before. Please do not undermine the very people that are working to aid the recovery, who are providing for their extended families, and also assisting in keeping the economy running. To end this debate once and for all, I would like to give you some context on public service pay. In 2018 the Government commissioned a report on public service efficiency, it looked at how we do business, and what we need to do to improve our services. That report stated that there were huge gaps between government pay scales and pay in the private sector.

The data showed that on average, public servants earn two thirds of the wages being earned in the private sector for comparable jobs and because of that Government found it difficult to fill vital roles.

My friends, people don't join the public sector to earn big dollars. Our nurses, our teachers are not earning exceptionally high salaries – if we cut their salaries who will we have on the frontline to protect us, to teach our children?

In the 2019/20 Budget the Government initiated a programme of pay increases across the whole of government to start reducing the pay gap between the public and private sector, starting with agencies with the lowest average rates of pay.

That programme was to continue through the 2020 and 2021 Budgets. I am announcing today that we have made the difficult decision to defer that salary adjustment for now. The money for those pay increases will instead be directed towards the next stage of the economic response plan, and we will revisit the pay increases once we come out on the other side of this.

And we will come out of this. As I said earlier, we are in the middle of working on the next phase, we know our funding requirements for additional stimulus, and we have commenced discussions to get that funding.

Even though we are not full members we have been on the sidelines of World Bank and IMF meetings, and we have also been in contact with the ADB who are running both loan and aid grant schemes which we will be aggressively pursuing.

The strong economic growth of the past few years has left us with good debt headroom. By that I mean that we have the ability to borrow and be able to repay that debt. Right now we have one of the best debt figures in the world.

New Zealand remains our strongest, and closest partner. New Zealand has already provided us some support towards our medical and economic response and we trust that this support will continue

I mentioned that we will see some changes in the way that government does business. We will need to streamline some areas, redeploy some staff and so on.

Government will also look to engage more local businesses as we go forward, we will look to small infrastructure projects using both public and private resources. We will aim to get, and keep, as many people employed as we can.

And I would like to say thank you to those in our community who have voluntarily stepped up to help their fellows in need. Yesterday in the paper we saw the news that my colleague Honorable George Maggie had arranged an area for some of our overseas workers to plant and grow food.

And I know of others who have reduced rents on their properties to allow people to be able to stay and afford to live, in some cases for free or what they can afford.

To those of you who are doing such charitable acts I commend you. And for those who are thinking about it, please go ahead and help out your fellow Cook Islanders, both those who have grown up here, and also those who are but temporary Cook Islanders. The Cook Islands Investment Corporation is doing their part towards this as well. For those people who have been financially impacted by COVID-19, CIIC have provided rent reprieves.

If you can afford to help another family out, either by reducing their living costs or supporting them in any other way, please do so.

In closing, please do continue engaging with us, putting your applications in. We can help you best when we know what support you need, and that you need it. Get your applications in so we can get them processed and get the support funds to you.

And please, keep giving us the constructive feedback that we need to ensure we all get through this together. We do not want to leave anyone behind. Stay strong. Kia Toa.

On a final note let us count our blessings. May God bless us all and may God continue to Bless the Cook Islands.