

ERP MYTH BUSTERS #2

MYTH: THE GOVERNMENT IS ABOUT TO RUN OUT OF MONEY

FACT: With sufficient cash reserves, grants, and long-term financing secured, the Cook Islands Government will not run out of money.

While Covid-19 has damaged the nation's economy, depriving the government of millions and millions of dollars, the Government has a plan.

According to the Government's latest forecasts, the Government had \$66 million in cash reserves to start the financial year. This sum covers the Government's bills, including the Economic Response Plan (ERP) for 3.5 months if zero revenue were received.

And whilst Covid-19 has hit the economy hard and border closures have seen tourism revenues evaporate, Government will continue to receive revenue from various sources, including taxation throughout the year and other revenue such as fisheries, extending the coverage of the cash reserves.

Supplementing these cash reserves, a \$15 million budget support grant has been provided by the New Zealand Government to help address the fiscal impacts brought on by Covid-19, which further relieves cash flow

pressures. As a result, Government will likely be able to reduce the amount of debt required to fund the 2020/21 budget.

The Government will be taking on additional debt to cover the remaining shortfall in cash reserves. Luckily, the Government's debt-to-income ratio – which is the amount of debt relative to the tax income it receives – is relatively low when compared with the region and beyond.

A \$15.7 million concession loan with a favourable interest rate has been provided by the Asian Development Bank, and while these funds have been received, this does not mean that the Government requires them immediately.

The current financial situation indicates that any further 'debt drawdown' likely won't be required until late 2020 at the earliest.

For the full 2020/21 fiscal year, Government expects a total maximum 'debt drawdown' of \$70m.

This includes:

- \$15.7 million from the ADB to support the Covid-19 Economic Response Plan (ERP)
- \$8 million from the ADB for the Manatua Cable (a historical loan arrangement)
- Debt financing \$46.7 million (In progress) – based on fiscal requirements as at Budget and discussions with lenders.

Tourism is expected to rebound, albeit slowly, during the 2021/22 fiscal year, with a projected \$16.5 million gap due to ongoing impacts from Covid-19 and the broader support initiatives that aim to assist in the recovery and transformation of the economy. The New Zealand assistance means that the gap in 2021/22 has now decreased, and can be further reduced through new loan funds.

In summary, **Government isn't going to run out of money** in the absence of tourism revenues. Steps have been taken to ensure that funds are available for the nation's requirements today, and well into the future.

