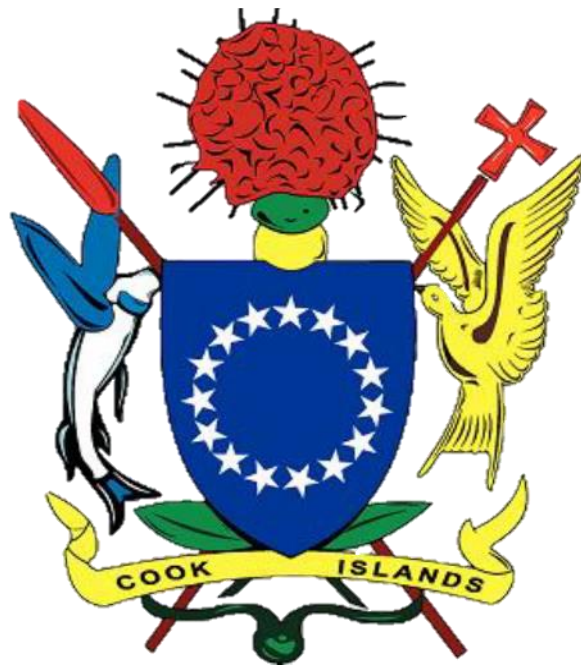

COOK ISLANDS GOVERNMENT

BUDGET SPEECH

2024/25

Tauta'anga
Budget of Perseverance



Hon. Mark Brown
Minister of Finance
15 May 2024

Budget Speech

Introduction

Kia Orana, Mr. Speaker, the King's Representative, Sir Tom and Lady Marsters, Members of Parliament, and all my fellow Cook Islanders both in the Pa Enea and here on Rarotonga. Kia orana.

Today, I am pleased to be here to talk about our Government's 2024 Budget, the key financing mechanism that will help guide our economy on its continued path of recovery. It is also a great honour and privilege to present to you my 14th Budget as your Minister of Finance.

Mr. Speaker, our nation has shown incredible strength and resilience over the past year. However, I want to take this opportunity to remind us all of the great challenge our nation has faced and overcome. Back in 2019, our Half-Year Economic and Fiscal Update painted a bright future showing that our prospects for the next four years were strong and very positive. For the first time in history we were on track to see our national income, or GDP, surpass \$600 million dollars, and on track by June 2023, accumulating \$2.3 billion dollars in four years. Then the unforeseen struck – COVID-19. Thankfully, our health sector stood resilient, but the necessary closure of our borders dealt a severe blow to our economy.

Mr. Speaker, to give you a sense of the impact imagine if one of our workers in a restaurant or shop had to sacrifice \$1.00 dollar out of every \$4.00 dollars, they earned for four years. That's the scale of what we have had to face as a nation. Our actual income during these years fell short by nearly a quarter, which translates to over \$500 million dollars lost due to the pandemic. No other country in the region let alone the world experienced such a significant loss.

This loss was a heavy burden, comparable to an individual losing a substantial part of their income. We are still addressing the impact, particularly through the debt we incurred to support our people and businesses during this crisis. This additional \$130 million dollars borrowed during the pandemic will need to be repaid, but it was a crucial investment in our people and our community – an investment that I would proudly make again without hesitation.

However, within these challenges, there is a silver lining. The resilience of our people and the renewed strength of our economy is among them. Just three years after facing the largest economic downturn in our history, I'm proud to stand here today and report that our economy is rebounding well. We have now reached that \$600 million-dollar mark, albeit a bit later than expected. This shows the power of our community and our determination to succeed, no matter what challenges we face.

The Last Budget

Mr. Speaker, I’d like to reflect on our last budget from 2023, which was themed "Nurturing a Nation." That budget was all about support. We increased payments for caregivers and for our most destitute citizens, supported key positions within Education and Health, and took care of our environment. The Nurturing extended to supporting our role in the region – as Chair in the Pacific Islands' Forum, we also took major steps to strengthen our Blue Pacific continent and advocate for our regional neighbours around the world.

Mr. Speaker, I want to highlight the significant strides we have made on the regional stage, particularly in our Blue Pacific continent. The Cook Islands has led the way in progressing several key initiatives, including the Pacific Resilience Fund (PRF), and the Pacific Partnerships for Prosperity (PPfP).

The PRF is a critical development. It is designed to help Pacific nations bolster their defences against climate change and extreme weather events. This fund represents a unique opportunity for our development partners to contribute in a way that empowers us to manage our own climate response effectively.

On another front, the PPfP represents a collaborative effort across our region. This initiative brings together a series of actions and partnerships that open doors to new funding and investment opportunities, aimed at transforming the Pacific both economically and socially. I am very proud to lead in particular the establishment of the Pacific Centre of Excellence on Deep Ocean Science (also known as PCDOS) which will be based here in the Cook Islands – and positions us to become a preeminent ocean science hub in the region and the world. Our involvement not only positions us as key players on the regional stage but also ensures that we have a significant say in shaping our future and the future of our Pacific community.

We didn’t stop there, closer to home, we also invested in our economy. We improved airline access and these investments have paid off. I’m proud to report a remarkable 14 per cent growth in our economy this year, a clear sign of our collective effort, determination, and the resilience of our businesses. By the end of June, we expect to welcome around 160,000 visitors, nearly reaching the levels we saw back in 2019.

Before I present this year’s Budget, which continues our path to economic recovery, I must express our deep gratitude to our development partners. These partners have contributed well over \$100 million in support over the response to COVID-19 and into the economic recovery.

Mr. Speaker, I extend a special thank you to the Asian Development Bank, Japan, the Green Climate Fund, and the Global Environment Facility for their continued support.

But let me particularly highlight the New Zealand Government and the support they have continued to provide our country. In the 2024/25 year alone, they have committed to \$52.9 million in budgetary support, \$34.0 million of which is directly related to the Cook Islands Infrastructure Trust Fund, and a total of \$121.6 million over the past four years. New Zealand's support has been crucial in our recovery journey.

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Budget 2024

Mr. Speaker, our theme for the 2024 Budget is "Perseverance," or Tauta'anga. Over the last four years, we've faced some of the toughest challenges in our history. But we've shown incredible perseverance. Today, I'm proud to say that our economy has not only recovered, but that the recovery efforts are exceeding our expectations and the economy is well on its way to surpassing pre-pandemic levels. We are indeed stepping into the light.

However, our journey isn't over. We must continue to persevere. This budget is designed to keep us moving forward, to keep us on track and to ensure that our recovery is complete and benefits all Cook Islanders.

Mr Speaker, as I have shared, our economy continues to show strong signs in its recovery – but the effects of the pandemic will continue to linger, and it will take some time before we are fully out of the shadows, nevertheless I have immense faith that the resilience we have shown as a people can get us through.

We are looking towards better days ahead. If we remain responsible now, we will be ready to seize future opportunities. This means, making smart, strategic decisions now, to pave the way for a prosperous tomorrow. Every choice we make today affects our ability to invest and flourish in the future. Conversely, poor decisions now could close doors that we need to open later.

The challenge with the Budget is that it involves tough choices. Every dollar we allocate to one area means a dollar less somewhere else – this is the reality of opportunity cost. However, I am confident that the decisions we have made are wise as they are designed not just to meet immediate needs but to set us up for future successes.

Our private sector has had a strong year last year, but they are still on the path to full recovery—a journey the Government has supported every step of the way. Now, as our businesses regain their strength, it is also time for the Government to be prudent—rebuilding our financial reserves to prepare for any future challenges and to take advantage of future opportunities.

Mr. Speaker, today’s budget is one that shows government’s continued commitment to fiscal responsibility. It balances the need to rebuild our reserves while continuing to invest in essential areas of our economy and society. This approach not only prepares us for future uncertainties but also ensures we can face any challenges ahead with confidence – whether those challenges be natural disasters like cyclones, or economic challenges or, God forbid, another pandemic.

It’s remarkable to reflect on the severe economic downturn we experienced—one of the largest in the world—and to see how quickly we have bounced back. This recovery is a testament our enduring faith in God’s providence, and to the effectiveness of the policies we implemented during the pandemic and the strategic investments made since reopening our borders.

The responsibility shown in this Budget and the previous one allows us to provide support to key parts of our society – and especially those who help others so we can all benefit. This Budget reaffirms increases in support for people caring for loved ones, as well as to key organisations which provide important services across our community to our most vulnerable.

Mr. Speaker, let us turn our attention to the exciting developments in our tourism sector. Mr. Speaker, by the end of this fiscal year in June, we expect to have welcomed more than 30,000 visitors from Australia—more than in any previous year. We also anticipate over 15,000 visitors from the northern hemisphere, broadening our tourism market beyond our traditional ties with New Zealand. This diversification not only enhances our economic resilience but also strengthens our recovery.

With these developments and our continued careful planning to ensure sustainable tourism, we are not just navigating through challenges, we are preparing to thrive in the times to come.

Economic outlook

Mr Speaker, today’s Budget shows that despite some headwinds we have experienced, the economic outlook for the Cook Islands is positive, as we have climbed out of the depths of the pandemic and are moving rapidly back towards the prosperity we once experienced.

Our GDP is on the rise again, but slowing a little from the very rapid growth we have seen over the last two years – as our economy comes out of the hole we were in, the growth rates will return to more normal levels. GDP is projected to grow by just over 4 per cent in financial year 2025 – solid growth, but it does pale in comparison to the 14 per cent in 2024 and 27 per cent in 2023!

However, we must also acknowledge the surge in price inflation over the past two years. This peaked in late 2022, and was the highest inflation we have faced in our history. Thankfully, the rapid growth of prices has eased – but prices are still high, and they are unlikely to fall back to where they were over two years ago. Factors beyond our control such as the global supply chain disruptions,

geopolitical tensions, and various conflicts, resulting in volatile oil prices and supply disruptions, have been the major contributors to this.

Over the past year to March 2024, inflation was 4.2 per cent, and food prices rose by a little more, at 4.8 per cent. I would like to stress that this inflation is something Government cannot control, as it is coming from outside of our country – but this slowing of inflation is welcome, even if it is not slowing as rapidly as we would like.

This slowing down of inflation is a ray of hope, with the peak of September 2022 being well in the rear-view mirror. This is consistent with experiences in New Zealand and Australia, who have seen inflation declining – though not as rapidly as desired. Government is continuing to undertake work through our Economic Recovery Roadmap to ease costs and put downward pressure on prices.

Mr. Speaker, we are actively working on exciting advancements that promise to transform the way we do business in the Cook Islands. Our collaboration with the banking sector aims to enhance our payments systems. This is crucial as it will empower our local businesses to explore and expand into eCommerce and utilise digital platforms, which are vital in today’s global market.

Furthermore, we have undertaken significant efforts to set up regulations for our utilities. The goal here is straight-forward, we want these sectors to operate more efficiently and ensure that our people pay only what is necessary to maintain these essential services.

Mr Speaker, I would like to say a few words about Perseverance.

Perseverance

Mr. Speaker, as we discuss perseverance and the spirit of resilience, I am reminded of a powerful verse from the Bible that speaks directly to our collective journey. The verse is from the book of James, Chapter 1, verse 12 which reads: "Blessed is the one who perseveres under trial because, having stood the test, that person will receive the crown of life that the Lord has promised to those who love Him."

This verse encourages us all to be patient and keep pushing forward, especially through the toughest times. It teaches us that it is through adversity that we are able to grow, not only as individuals but also as a nation. That there is great reward, not just in material terms, but in the strength and unity we hold as a community when we face challenges together.

As we continue to navigate the challenges ahead, let us draw inspiration from these words. Let us continue to be patient and embrace adversity as an opportunity to grow, and perseverance as a necessity to strengthen us as a nation.

A core aspect of perseverance, means standing strong even when times are tough. As Cook Islanders, our future—of our communities, businesses, economy, and environment—relies heavily on our resilience.

Throughout our history, we have faced numerous setbacks. Each time, we have demonstrated remarkable strength. These challenges remind us that we must be prepared for future difficulties that will come our way. While resilience might not always be visible, especially in politics, it is crucial and requires our full attention. It prompts us to look beyond temporary victories and focus on achievements that last for generations.

Fiscal outlook

As we look at this year's Budget, it reflects our ongoing commitment to fiscal responsibility. This budget moves towards a neutral fiscal stance, meaning we aim to spend only what we bring in, avoiding any unnecessary debt. This careful balance is critical as it prepares us to handle future economic shocks or natural disasters without relying excessively on borrowing.

Mr. Speaker, managing our nation’s finances responsibly means ensuring we have enough funds to handle unexpected challenges such as, being able to respond to another economic shock or a natural disaster, or that we have the fiscal capacity to draw down on debt to respond if we need to and as we have done in the past. Our journey to financial health is not without its difficulties, especially as our debt repayment will significantly increase, reaching over \$30 million per year by the end of the decade. This requires a substantial part of our revenue, emphasising the need for careful financial management.

However, we are actively discussing with our funding partners ways to effectively manage our debt. These conversations are promising, and the potential outcomes look promising. But we must remain cautious with our spending.

Mr. Speaker, while the 2024 Budget might seem stringent due to the high cost of living, it is part of a broader plan to ensure the recovery of our government revenues, which lag behind the economic recovery.

However, this does not mean cutting essential spending. The government will continue to invest in our economy to bolster future resilience. This includes following through with our Economic Recovery Roadmap, enhancing government services, and making strategic capital investments. Now is not the time for austerity but for prudent investment. Experience from around the world has shown us that drastic budget cuts, often referred to as austerity, has rarely yielded the best results. In fact, such measures can leave lasting negative impacts on an economy, what we might call economic scarring.

For us in the Cook Islands, this could mean something very specific and very personal – increased migration of our people abroad. When time gets tough here. The prospects of earning a New Zealand income can seem very appealing

Therefore, our goal is to make the Cook Islands not only a beautiful place to live but also a prosperous and stable one, where our people can thrive without having to look elsewhere.

KEY BUDGET INITIATIVES - OPERATING

Salary banding for Teachers

Mr Speaker, investing in our tamariki is critical for our future and to do this effectively, we need to invest in the teachers who guide them. We understand the important role that our teachers have in guiding the next generation and giving them the skills to succeed in life – for all of us. Former United Nations Secretary General, Kofi Annan once remarked that “education is the premise of progress in every society” and that is true of us in the Cook Islands, so we are making investments in education – to continue that progress.

In this Budget, we have allocated \$5.2 million over the next four years to bring our teachers up to pay scales which more accurately reflect the important work they undertake in our society. This will help the Ministry of Education to ensure they can recruit and retain teachers as well.

Providing support for critical healthcare

Each year, many of our people face serious health challenges, necessitating travel overseas for treatment – either from the Pa Enea to Rarotonga, or to New Zealand. This Budget increases our commitment by providing an additional \$1 million dollars per year to ensure those who need treatment can access it. This builds on last year’s decision to facilitate access to private healthcare in New Zealand, improving the health outcomes for our people.

Non-Government Organisations

Mr Speaker, many organisations in our community operate alongside Government to provide important services to people. Unfortunately, as a result of our success in being classified as a high-income country, some of these organisations have found it difficult to access funding from development partners as they used to. We now have to step in to fill the gap. With the critical work these organisations do, especially in helping our most vulnerable people, Government is providing almost \$700,000 in funding to continue support for this sector which includes NGOs such as the Cook Islands Family Welfare Association, Te Kainga, Punanga Tauturu and the Cook Islands Civil Society Organisation – all of whom contribute critical work to our society. This will allow these organisations

to continue to support our families and our children to have the best possible opportunities in life, as well as provide some help and guidance for those most in need.

This funding initiative was initially in the last Budget, for one year to allow the organisations some time to seek funding from development partners. However, this funding has so far proven difficult to source, so Government is stepping in.

Tourism and the economy

Mr. Speaker, tourism remains a vital part of our economy, driving two-thirds of our economic activity.

Over the past year, Government has made significant investments in the sector – especially with regard to airline connectivity, and we have seen those investments begin to pay off. Government is continuing to support these investments in additional flights and additional capacity to bring people to the Cook Islands.

Mr Speaker, flights are a key component for our tourism sector, however they do not achieve much if people do not know about them. So, Government is providing additional funding of \$4.7 million over four years for marketing the Cook Islands as a destination to help support the investment in connectivity. Further to this, \$1.8 million in funding for Destination Development which will help to provide an environment for tourists when they visit – including in the Pa Enea.

Pa Enea transport

Mr Speaker, many people may have seen discussions in the media around key transport and in particular shipping links in the Pa Enea. I am proud to say that this Budget includes a considerable investment in shipping in the Pa Enea to ensure regular freight connections for our people outside Rarotonga and Aitutaki. In this regard we continue to work closely with the governments of both Japan and China to ensure fit for purpose vessels can be secured to support our Pa Enea development.

This work will help to make life on our Pa Enea a little easier, and reduce one of the barriers to their economic development – assisting in the entrepreneurial spirit of our people to run businesses and create investment outside of the two larger economic hubs.

Building Up Reserves

Mr. Speaker, we remain committed to building our financial reserves. This includes a sensible plan for repaying the loans taken during the pandemic and moving towards fiscal surpluses. We are also ensuring that funds are available in our stabilisation account and loan repayment funds to meet future obligations.

Mr. Speaker, this Budget is about setting a foundation for resilience, ensuring we are prepared for the future while continuing to support the immediate needs of our people.

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KEY BUDGET INITIATIVES – CAPITAL INVESTMENTS

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

Capital expenditure in this Budget will continue the Government’s investment themes from the previous year, and in particular make use of the Infrastructure Trust Fund, which has been generously provided by New Zealand.

In this Budget, Government has focused on projects that are either already in progress or in development in order to complete existing projects with importance to the Cook Islands. These are designed to employ local contractors and labour, such as the Te Tau Papa O Avarua – the Avarua Town Plan project which is funded by the Infrastructure Trust Fund. This project, and indeed many in the infrastructure space, are geared toward ensuring both that we build the infrastructure we need, but also that there is activity for local construction firms, engineers and tradespeople – as without that pipeline of work, the skilled labour involved in this sector can leave. The Government is continually in discussion with development partners around financing of work in this sector to ensure there is work ongoing – especially while our private sector repair their balance sheets. As these discussions bear fruit, announcements will be made, but rest assured, we keep a very open dialogue with partners.

Furthermore, we remain engaged in endeavours aimed at ensuring the safety and security of our people in the event of cyclones, both in Rarotonga and the Pa Enea, as well as the provision of key services such as water.

Physical Infrastructure

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

The work on Manihiki Airport in particular will pilot a new approach to infrastructure development in the Pa Enea. We know that the cost of building things in our Outer Islands is prohibitively high in many respects, so to deliver key projects, a ‘public-works’ style model is being undertaken. This project will

be used to show how such a model can work, and learn from it to be able to implement in infrastructure projects for the future – keeping them as affordable as possible.

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

As well as spending through the Budget, the Government is actively discussing additional capital investment proposals with our donor 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 employed and help to retain our skilled labour.

Changes to social payments to help the most vulnerable

And Mr Speaker, turning finally to our social support programmes.

I have previously commented that inflation has been significant, but out of the Government’s control. While we continue to work on reducing inflation, we must also help our vulnerable populations more directly. As signalled in last year’s Budget, we have increased payment rates for the Destitute Payment, the Power Subsidy and the Caregiver Payment. Consistent with the plans last year, from 1 July the Caregiver Payment will go up again from \$300 per month, to \$400 per month – to better support people who support others.

These payments help some of our most vulnerable people, and those looking after our most vulnerable – increasing these rates helps to bring them along with the recovery in the economy.

As well as these payment increases, we have seen more recipients of the Pension and some other payments, and to meet the needs of those people we have allocated over \$3 million over the next four years.

Minimum Wage Increase to \$9.50 per hour

To assist with the impacts of rising prices, the Government has also confirmed an increase in the minimum wage rate from \$9.00 to \$9.50 per hour. For a worker on 35 hours per week, that is an additional \$900 dollars a year. The increase of the minimum wage to \$9.50 per hour has required an additional provision for Government’s spending on personnel, primarily in the Pa Enea. The total cost to Government is an additional \$1.3 million over four years.

Conclusion

Mr Speaker, today’s Budget is about perseverance and ensuring we are well-placed to take advantage of the opportunity on the horizon, which results from our strong economic management.

I leave you with a Budget that balances fiscal responsibility and the needs of our nation as we continue our journey towards our prosperous future. Thank you for your attention and support as we work together to build a stronger, more resilient Cook Islands.

Kia Orana, e kia manuia