



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 Phase 2
24 May 2020, 6pm

Kia Orana

Introduction

Tonight, I would like to discuss the next phase of the Government's economic response to the COVID-19 pandemic. Most of you are feeling the impacts of the pandemic on either your household or your place of work, if not both. Many of you are also receiving assistance through Phase I of the Government's Economic Response Plan, either directly as a wage subsidy or business grant recipient, or indirectly, through family members. These times have not been easy, we have seen the impact on our community and have heard your calls. Despite this, I have been impressed by the resilience and strength shown by all, together we will get through this.

Since the beginning of April, the Government, through its Economic Response Plan, has provided \$1.4 million to support households, \$5.2 million to keep people in jobs and \$3.6 million to keep businesses afloat. We have made some adjustments to the Government's response during this time to fill some gaps. And while some of you have indicated that the support is insufficient, we believe that the Government has done what it can to balance the needs of households, businesses and the long-term sustainability of Government finances.

We are now in late May and have gone without tourists visiting our shores for 2 months. While many of us are enjoying the slower pace of life that comes with fewer people on our islands, it is vital to our livelihoods that we look forward and work towards the safest way to open our borders.

We have directed a number of officials to work towards our re-opening, they will be engaging with the private sector and community representatives to ensure that when we do open our borders we will be able to protect our health and our community. Our health and economy must move forward together - we cannot maintain our economy without considering the health and safety of our people. Likewise, we cannot maintain our health system without a viable economy.

While the Government works through the details on how to re-open, we recognise there will likely be a gap between the end of Phase I economic support in June and the border opening. I hear concerns in

the community around what happens in July, what happens when all of the Government support announced ends?

I have spoken recently about the second phase of the Economic Response Plan. Tonight I will put some flesh on those bones and provide more clarity on the initiatives we will be rolling out from the beginning of July to ensure that there is no gap in support from Government. Government's support as announced tonight has a range of objectives, the most important are keeping people in jobs and keeping businesses operating, I trust this will help to allay your fears and provide assurance in this uncertain time.

Before proceeding, I want to make it clear that the finer details of the Plan are still being worked through. I know many of you are eager to see the small print, but I ask that you to please be patient and trust that the work is being undertaken as I speak.

Rest assured that the Government has been consulting widely on this second phase, including with the House of Ariki, the Religious Advisory Council, the Private Sector Taskforce, training institutions, representatives from the economic sectors, commercial transport operators, importers and the Punas.

Phase II

Phase II of our Economic Response Plan, is expected to have a value of \$76 million. That is \$76 million of Government support going back into our economy, in the form of either direct or indirect funding. Phase II of the Economic Response Plan is split across three themes, each with their own timeframe and target groups. The three themes are:

- **Lifeline Support** – our immediate priority is to protect the livelihoods of people and businesses
- **Recovery** – our goal over the medium term is to kick-start growth again; and
- **Transforming our economy** – our goal over the long-term to encourage a more diversified and resilient economy.

Lifeline Support

Lifeline Support for people and businesses is the most important aspect of Phase II. This support will commence from 1 July and will see an immediate positive impact on households and businesses.

Our aim within this theme is reducing the financial stress that many of you are facing right now. The other themes of Recovery and Transforming the economy will be of limited benefit if people's livelihoods go under or businesses fail in large numbers.

A number of key measures will be rolled out under the theme of Lifeline Support.

First, the Government will extend the Wage Subsidy for eligible businesses until September, at an increased rate of \$320 per week for full-time staff. We recognise that many families have been struggling on reduced wages and we hope that this increase provides a sense of relief for you, this is additional money that you will see in your bank accounts each pay day.

We also recognise the many businesses that have continued to pay their staff above the current wage subsidy amount, we hope that this too provides your business with some additional support by reducing the funding required to come out of your pockets.

Second, the Government will 'hibernate' interest repayments for a period of one year, for all individuals and businesses holding current debt that choose to opt-in.

The financial pressure that interest repayments will place on households and businesses over the next year adds to your challenge of staying afloat. This hibernation measure will remove that interest burden for a year, with the deferred interest to be repaid over an extended period under more favourable economic circumstances.

Third, the Government will increase the tax-free threshold for individuals from the current \$11,000 per year in two stages. On 1 July, it will rise to \$12,800 and then to \$14,600 from 1 January 2020. This will provide additional funds in the pockets of all income tax paying individuals.

Fourth, while the Government's focus is on keeping people actively engaged in the workforce, the Government will extend the current unemployment benefit measure and will be making amendments to the policy in the coming weeks to better safeguard the welfare of those individuals that have lost their jobs. A large focus will be placed on retraining our unemployed through our training partners to allow them to re-enter the workforce as soon as possible, and with a higher level of skills.

Unfortunately, and not unexpectedly, with COVID-19 we have seen an increase in the number of families facing financial hardship. To address this, the fifth measure under Lifeline Support, is the establishment of an Emergency Hardship Fund to provide quick and easy assistance to help families get back on their feet.

As a sixth measure, the Government will extend the current reduction in superannuation contributions for both employees and employers for another 3 -months, but with a further reduction to one percent. In addition, Te Aponga Uira is currently working through plans for the extension of electricity discounts to be provided to households and businesses.

Finally, the Government will provide access to low interest short-term finance to businesses to improve their cash flow over the coming months, to help meet payroll, rent and overhead costs, to ensure that businesses can weather the storm.

These measures, pulled together as a Lifeline Support package will provide certainty to you all throughout the coming months and through to next year.

Recovery

While Lifeline Support is the key focus of the second phase of our Economic Response Plan, we also need to look further, to the medium-term, the rest of 2020 and into next year.

While we expect our borders to be open by that time, let us be frank and recognise that our growth will not bounce back overnight to the strong levels it was before. It will take time for us to see the income flowing into business and strong revenues into Government accounts once again. The Government will step in and support this recovery through a number of integrated initiatives.

First is the Training Subsidy. This is a complementary measure to the Wage Subsidy, that comes with guaranteed wage support through to September, regardless of whether our borders re-open and business picks up, assistance for training and grant funding for businesses that sign up.

The second is a broader skills initiative that we call Fees Free. For the last three years we have faced a significant skills shortage, and even now, during a substantial economic downturn, we still have constraints in some sectors.

To encourage our people and businesses to upskill, we will be offering Fees Free during Semester 2 at the Cook Islands Tertiary Training Institute. We will also provide Fees Free for a select number of certificates offered by the University of the South Pacific between June and December 2020. I encourage you to reach out to our two tertiary institutions as soon as possible to explore opportunities.

Business tax incentives are the third Recovery measure. The Government will offer tax measures such as accelerated depreciation to encourage business investment in new productive equipment, buildings and other capital works, to accelerate economic growth the other side of the pandemic.

The fourth measure is reduced interest longer-term loans. Government-guaranteed loans will be provided +to reduce finance costs for those businesses that wish to take out new loans to invest in their business.

With these measures government expects to see an increase in investment, not only in our businesses, but also in our people – our most important asset.

Transforming our economy

Last, but certainly not least is the theme of transforming our economy.

Many conversations, some more informed than others, have taken place recently about the need for diversification. While it is clear that we are an example of a country that has most of its eggs in the tourism basket, I also want to be clear that there are no magic diversification bullets.

A successful, comprehensive economic diversification program requires detailed, integrated economic planning and a matching funding effort. It also requires the private sector. Government can set up a platform for a diversified economy, but government is not itself a business. We look to you, the private sector to identify the opportunities, and we will support you where we can.

Nonetheless, the second phase of our Economic Response Plan does provide an opportunity to include some diversification initiatives, along with a focus on greening our economy to encourage diversification within our key sector, tourism.

These initiatives signal that Government remains keen to diversify, but we will rely on the Economic Development Strategy – which we will return our attention to after the initiation of Phase II – to provide a better, more integrated vehicle to deliver a more complex, diversified and greener Cook Islands economy.

The Government is proposing three key diversification and sustainability measures in the Economic Response Plan.

First is the SMART Economy Initiative. With the step-change in internet connectivity following the establishment of the Manatua Cable and recent reform of the monopoly telecommunications market, the Cook Islands is well placed to embark on a commercial ICT transformation. The SMART Economy initiative will provide a mix of grants, lower interest loans and tax credits to support commercial business

ventures providing innovative ICT applications and services to business and consumers in the Cook Islands and abroad.

The second is the Smart AgriTech Initiative aimed squarely at fostering innovation and productivity in our commercial agricultural sector. This initiative will provide grant funding to support investment in smart, productivity-enhancing agricultural technology and equipment to improve the commercial viability of agricultural businesses and the economic sustainability of the agricultural sector.

The third measure is an enhanced accelerated tax depreciation initiative to encourage business investment in environmentally sustainable assets, with a focus on greening our economy.

These grants and tax measures create the opportunity for the private sector to invest in new businesses and more sustainable practices that will diversify our economy.

Conclusion

Tonight I have provided you with a comprehensive and integrated list of initiatives that the Government will be rolling out in Phase II of the Economic Response Plan to act as a lifeline, boost recovery and help to reposition our economy on the other side of the COVID-19 pandemic. While these are developed plans, the Government recognizes the need to have some degree of agility during these times, we are working within the data limitations that we have, and may be required to tweak things as we go.

As I have discussed with you previously, the Government's approach to this crisis is one of stimulus, the package outlined will provide support to households, businesses and the economy to ensure that we collectively remain afloat and are able to recover when the time comes. We will be appropriating funds for these initiatives in the 2020/21 Budget that will be put before Parliament next month. We anticipate bipartisan support for the measures and expect to start implementing them from 1 July.

Once again, I urge you to continue to engage with us, give us your feedback and ideas and, once the second phase is launched, put your applications in for the various initiatives I have outlined today. The success of this second and critical phase of Government stimulus will rely on all of us working together, not just for our own benefit, but for the good of the Cook Islands.