



Office of the Prime Minister
Press Release

Speech Notes – Deputy Prime Minister’s Address to the Nation

EMBARGOED UNTIL 6PM, 29 APRIL 2020

Kia Orana,

Introduction

One month ago, I announced Phase I of the Government’s Economic Response Plan. A bold plan which has provided our people with some certainty in an uncertain time. The halt on tourism has caused significant damage to our economy, but due to the Plan, our people know that the Government is providing support to households, and businesses.

Phase I stimulus rollout

Following the passing of the Supplementary Budget, the Government has rapidly moved to implementation of the first phase of the stimulus measures announced in our COVID-19: Economic Response Plan.

As of 29 April 2020, in just the third week of implementation, a total of \$6.4 million has been distributed to the Cook Islands community and businesses:

- 320 wage subsidy payments to businesses at a value of \$3.2 million
- 3,015 employees covered under the wage subsidy program (49 per cent of the private sector workforce)
- 289 grants to businesses and sole traders at a value of \$1.8 million
- 72 employees on the unemployment benefit at a value of about \$71,900
- 2,171 one-off welfare payments at a value of about \$868,400
- 4,703 school closure payments to families at a value of \$470,300

I would like to take this opportunity to thank all of the agencies and organisations that have been instrumental in the swift and efficient rollout of the stimulus measures. I would like to make special mention of the Ministry of Internal Affairs – responsible for dispensing all the welfare measures; the Cook Islands National Superannuation Fund who have been instrumental in the development of our new application system, and my own Revenue Management Division who are administering the business grants, wage subsidy and tax measures; and the Chamber of Commerce who have

done excellent work in making the measures more easily accessible for the business community.

I would also like to commend those employers that are doing the right thing by their employees in these difficult times. For those who are not, remember that it these same employees that you will be relying on to get your business back on its feet after the pandemic. If any bad behaviour crosses the line – although I am sure it will not – you are on notice that Government authorities are checking and will not hesitate to take necessary action, and in addition, hold any future wage subsidy payments.

It is important at this time to keep an eye on morale. Keeping our employees motivated and optimistic for the future is extremely important. While you as an employer might be suffering, your staff are also suffering as they face reduced hours or carrying out tasks they do not normally do. But a motivated, engaged workforce is critical for the future prosperity of your business, and you have the ability to motivate them by maintaining a good working relationship.

I must be clear though, that the eye is not only on business. As individuals and members of our community, each person has a role to play – employees too. The wage subsidy is being paid by Government for you to be productive, to contribute to your workplace, or in many cases to your community. This is not an opportunity for you to sit at home, your employer has the right to request that you work. The money that is being paid to you has been hard earned, so use it to make your place of work or community a better place for everyone.

Phase 2 development

That is enough on Phase I measures for the moment – I know all of you really want to hear about Phase II.

It is increasingly evident that economic conditions will remain tough for a period well beyond June this year, which calls for a second phase of stimulus – yes, more stimulus, not austerity – and much larger than the first.

Phase II will focus on the 12 months from July, that is until July 2021, in line with the 2020/21 Budget. I don't want to make any predictions about how long it will take the world economy to emerge from its COVID-19 hibernation, but we need to be prepared for a lengthy period of low economic activity, and a much slower return to our previous levels of growth than we initially expected. To respond to this the Government will provide stimulus of around \$76 million to keep the economy afloat until we are in a position to begin the process of recovery.

The Government is well into the development stage of Phase II of the COVID-19 Economic Response Plan. So, what exactly are we doing I hear you ask?

First, we are monitoring progress of the rollout of Phase one measures and will be progressively evaluating their performance against the objectives of the Plan. The monitoring and evaluation framework will assist in identifying which measures are working and those which should be continued in Phase II, it will also help identify any gaps in coverage.

Second, supported by the monitoring and evaluation efforts, we are undertaking a needs assessment to ensure that Phase II adequately addresses identified needs of the various sectors of the Cook Islands economy and community.

Third, to assist in the design and development of Phase II, we have established an Economic Response “Virtual Think Tank” to supplement the skills in the Ministry of Finance and Economic Management. This comprises a team of both locally based and international expert economists supported by policy experts.

At this time, our country deserves access to the best technical support. The Think Tank will provide both a sounding board and expert second opinion to ensure that Phase II of the ERP will meet its objectives effectively and efficiently.

Fourth, we are consulting with a wide range of stakeholders – this includes the private sector, government agencies and community representatives.

The design and scale of Phase II of our Economic Response Plan is a delicate balancing act. A balance is required between the needs of individuals, the needs and capabilities of businesses, and the financing ability of Government. At the same time, we have to ensure that economic flows and relationships are considered so that any specific measure, or combination of measures, does not cause an economic imbalance leading to more harm than good over the long term.

In addition, I will remind you that what we are doing here is economic stimulus – we are quickly filling some of the gap that is left by tourism, if we do not do this we will start to see the long unemployment lines that we are seeing globally on the news.

While there has been some commentary around the need for diversification, this takes time.

The Government can scrape the surface of diversification in the ERP, however it cannot, and will not develop an ERP that is focused on that as an objective, there are other homes for that discussion, namely the National Sustainable Development Plan and the Economic Development Strategy, which are both in development. The ultimate aim of the ERP is to sustain our livelihoods during this downturn, focusing too much on diversification will harm our ability to achieve that goal.

The Government, assisted by the Think Tank, and informed by consultation with key stakeholders, is best placed to manage the balance of all of these interests and needs. If this balance is not properly handled, we run the very real risk of measures that are not affordable or are heavily skewed in favour of individual sectors or interests. I need not tell you that this would not be in the nation's interest.

On the finance side, we are developing fund raising strategies right now with our key development partners to ensure we can effectively and responsibly finance Phase II.

The phrase 'responsibly finance' is key here. While there have been calls for 'austerity', we have been clear that the time for austerity is not now. While we need to be mindful of not compromising our longer-term financial sustainability, cutting spending right now in the middle of a slump would be like trying to cure a sick person by bleeding – a medieval cure that never worked because it weakened instead of strengthening.

At this stage, the team is working on developing the support measures for Phase 2. Under consideration are measures to target individuals, business and the community. I want to be clear though, when we say businesses, many people automatically think of the big businesses that we all know and rely on in our community. What we often do not think of is that the phrase business includes many more people – from small cafes, to market vendors, to commercial farmers and holiday homeowners. The majority of businesses that we will support are small businesses, for example in Phase I, 75% of the businesses that have received the wage subsidy to date have less than 10 staff. Our focus on small business will continue.

The Economic Response Plan is Government's fiscal response to the economic impact. This will be implemented in the 2020/21 Budget to be released in June. The fiscal response is the only tool that Government has to intervene in the economy – we do not have a reserve bank like most other nations, so we must ensure that our fiscal response is strong. But I would like to make a very important differentiation between the government budget, and the economic response plan.

Whilst much of the funds for the economic response plan will flow through government agencies, these funds will not be going into agency operating budgets.

The economic response plan consists of funds that will go out to the community in the form of benefits and grants, and also in the form of contracted services, mostly for capital projects, that will keep many businesses operating.

I stated previously that we have no intention to cut the government payroll, and there is an important reason behind this in addition to the economic impacts that this would have; the machinery of government must be intact to deliver core services. It is these

services which underlie many of the necessary functions of society. But it is also these services which allows government to direct funding into households and businesses in the community.

That said, I have instructed the various heads of government agencies that we will be focusing government expenditure on our core services, at least for the next year or two.

This means that government will place most new programmes on hold, and that we will be directing funds from some existing projects and services into other areas, or into funding the economic response. There are things that we can do without for a period of time, and the funds for those things can better serve us in other ways, including by reducing our debt levels.

As an example, I have directed that the government's fleet replacement be put on hold. For now, we will only replace broken-down vehicles that are necessary for government to deliver services to the community. If it works, we will keep on using it, and for as long as we need to.

MFEM is currently working with government agencies to determine what the new government budget will look like, and from that our agencies will determine the priority in their sector, we will finalise that process in the next few weeks.

The overall budget is going to **look** bigger, because the government can only spend funds through the budget appropriation. But you will see the differences in a few places.

Most notably in the funds that government will be directing into the economic response, and likely increases in our welfare funds, and our capital projects, as we seek to engage businesses. Conversely you will see a somewhat leaner government operating budget, where we seek to do more with less.

In closing, I will repeat what I have said on previous occasions – please continue to engage with us, give us your feedback and ideas and put your applications in for existing measures.

Let's remember that getting through this economic slump in one piece, ready to adapt to the new normal after the pandemic, is the common goal we are all striving towards, no matter what side of the fence, imagined or otherwise, we may be on.

So, let us continue to work together in a constructive fashion for the good of our nation.

Meitaki maata. - **ENDS**