

# CAPSULE

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## BUDGET BREAKDOWN 2026

Paying for Hurricane  
Melissa



CAPRI's Budget Breakdown provides an informed analysis of Jamaica's budget for the fiscal year April 2026 to March 2027. This year's analysis is framed by a single overriding reality: Hurricane Melissa, the most powerful storm in recorded Caribbean history, struck Jamaica in October 2025, destroying infrastructure equivalent to more than half of GDP in a matter of hours. The budget is, in its essentials, a recovery plan. This report assesses its credibility and sustainability, estimates the full fiscal cost of the hurricane, and evaluates whether Jamaica's disaster risk framework is adequate for the scale of disruption it now faces.

Jamaica's fiscal position entering the hurricane was strong. A decade of sustained commitment to debt reduction had brought the debt-to-GDP ratio down to 62 percent, primary surpluses had been maintained, and the Fiscal Responsibility Framework had provided a credible anchor for fiscal policy. That foundation absorbed the shock. It did not absorb it without cost.

The government's growth assumption sits within the wide range offered by independent forecasters--from the World Bank's projected contraction of 2.3 percent to the Bank of Jamaica's projected growth of between 1 and 3 percent--but there is a concern about the revenue projections. The government's estimate of how much the economy will grow in dollar terms may be inconsistent with its own inflation forecast, and the Independent Fiscal Commission has warned that this might imply that the government collects less tax revenue than it has budgeted for. On balance, the budget is credible, but with more uncertainty attached to that assessment than in any year since the pandemic.



On sustainability, the picture is similarly qualified. The debt-to-GDP ratio is projected to rise to 68 percent by the end of fiscal year 2025/26 before resuming its downward path, with the long-targeted threshold of 60 percent now deferred from fiscal year 2027/28 to 2029/30. The activation of the escape clause under the Fiscal Responsibility Framework which temporarily suspending the fiscal rules through March 2027 was appropriate given the scale of the disruption. The medium-term consolidation path remains intact, supported by a \$29 billion tax package, including a new Special Consumption Tax on non-alcoholic sweetened beverages. The risks to that path are uncertain revenue performance, rising reconstruction costs, a demanding wage bill, and continued climate exposure, which will all require sustained expenditure discipline to manage.

The full fiscal cost of Hurricane Melissa, aggregated across fiscal years 2025/26 and 2026/27, is estimated by this report at \$198 billion. That figure comprises approximately J\$98 billion in direct expenditure on recovery and reconstruction and an estimated J\$100 billion in lost tax revenue. The revenue loss might be easily overlooked but is as large as the spending requirement.

To fill the fiscal gap, the government deployed a layered financing strategy: J\$48 billion from non-debt instruments, including a \$24 billion catastrophe bond, a record \$14.5 billion payout from the Caribbean Catastrophe Risk Insurance Facility, and the

government's own disaster reserve fund, and \$120 billion in multilateral borrowing from the IMF, IDB, and World Bank. Non-debt instruments covered less than a quarter of the total fiscal cost. Nearly three-quarters had to be borrowed.

The disaster risk framework performed as designed. The parametric instruments (based on objective intensity measures rather than subjective damage assessments) delivered liquidity with speed and without the delays of damage assessment: CCRIF funds arrived within 14 days, the catastrophe bond paid out in full. That speed was critical in the immediate aftermath.



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The lesson of Melissa, however, is that the framework was sized for disasters the country had already experienced, not for the one that arrived. The gap between what it mobilised and what the disaster cost is not a failure of design; it is a question of scale. The catastrophe bond has been fully redeemed and no longer provides protection. The 2026 hurricane season opens in June.

Jamaica's fiscal response to Hurricane Melissa demonstrates both the value of the institutional foundation built over the past decade and its limits. The country absorbed a shock of historic proportions without a fiscal crisis, and without a substantial and prolonged increase in debt. Closing the resilience gap through scaled-up insurance coverage, new financing instruments that smooth recovery costs over time, and reconstruction that raises rather than merely restores the standard of the physical asset base is the central fiscal challenge this budget presents, and the one that will define the budgets that follow.



## Recommendations

1. While the widely-accepted debt threshold of 60 percent of GDP may be adequate in a less risky environment, the government should continue to target debt reduction beyond that level. Disasters will inevitably require temporarily debt increases and room should be created for that.
2. Negotiations for a new catastrophe bond issuance should begin promptly and the coverage should exceed by at least half and possible more the amount of the last bond.
3. CCRIF coverage should be increased to the extent that the facility can accommodate it.
4. Annual contributions to the Contingency Fund and the National Natural Disaster Reserve Fund Should be increased, by at least half in the short run and doubled following recovery from spending.
5. Disaster-clause bonds should be added to the risk management framework. These are bonds that defer either or both of principal and interest payments for a defined period after a disaster hits.
6. The structure and amount of the disaster risk framework should be subject to periodic "actuarial" audits for its adequacy in relation to the likelihood and estimated damage from the disaster risks.



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