



BUDGET BREAKDOWN 2026

Paying for Hurricane
Melissa



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Table of CONTENTS

Figures	iii
Acronyms	iii
Executive Summary	iv
1 Introduction	10
2 Credibility and Sustainability	14
3 Trends and Divergencies	20
4 Disaster Risk Framework	28
5 Conclusion	32

Figures

Figure 1: Public Debt (as a percentage of GDP)

Figure 2: Government Revenue (\$b adjusted for inflation)

Figure 3: Government Expenditure (\$b adjusted for inflation)

Figure 4: Fiscal Balances (percent of GDP)

Figure 5: Capital Expenditure (J\$b)

Figure 6: Fiscal Cost of Hurricane Melissa (\$b)

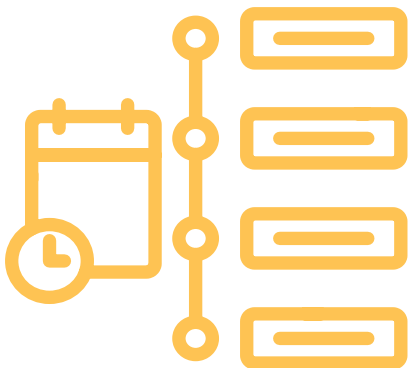
Figure 7: Financing the Cost of Hurricane Melissa (\$b)

Acronyms

CAT-DDO	Catastrophe Deferred Drawdown Option
CCF	Contingency Credit Facility
CCRIF	Caribbean Catastrophe Risk Insurance Facility
CCRIF-SPC	Caribbean Catastrophe Risk Insurance Facility Segregated Portfolio Company
CPI	Consumer Price Index
DALA	Damage and Loss Assessment
DRF	Disaster Risk Financing
DRM	Disaster Risk Management
FRF	Fiscal Responsibility Framework
GCT	General Consumption Tax
GDP	Gross Domestic Product
GOJ	Government of Jamaica
IDB	Inter-American Development Bank
IMF	International Monetary Fund
MOFPS	Ministry of Finance and the Public Service
NaARRA	National Reconstruction and Resilience Authority
NNDRF	National Natural Disaster Reserve Fund
ODPEM	Office of Disaster Preparedness and Emergency Management
PPE	Purchasing Power Equivalent
SCT	Special Consumption Tax
ROOFS	Restoration of Owner or Occupant Family Shelter



Executive Summary



The risks to the medium-term consolidation 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.

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



To finance a sudden J\$198 billion obligation, the government deployed a layered strategy combining parametric insurance, catastrophe bonds, contingency reserves, and J\$120 billion in multilateral borrowing from the IMF, IDB, and World Bank.

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.

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

Given Jamaica's heightened exposure to climate-related shocks and global economic shocks, the strengthening of fiscal resilience in general, and the rebuilding of disaster-risk financing (DRF) instruments following recent drawdowns after Hurricane Melissa is essential. High-intensity events are not one-off occurrences but part of a recurring risk profile, placing sustained pressure on public finances. Therefore, the Government cannot rely solely on existing buffers without a plan for their restoration and strengthening. Probabilistically, the next disaster could be this year. Therefore rebuilding these instruments should be treated as a fiscal priority. In this context, institutionalizing a rules-based approach to rebuilding DRF instruments would support the sustainable management of Jamaica's climate-related and other fiscal risks.

**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.

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.

2**3**

CCRIF coverage should be increased to the extent that the facility can accommodate it.

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.

4

Recommendations



5

Disaster-clause bonds should be added to the risk management framework. These are bonds that defer either or both principal payments and interest payments for a defined period after a disaster hits.

The structure and amount of the disaster risk framework should be subject to periodic actuarial audits for their adequacy in relation to the likelihood and estimated damage from the disaster risks.

6





1

Introduction



CAPRI's Budget Breakdown provides an informed analysis and perspective on the Jamaican government's budget for the new fiscal year.

CAPRI's Budget Breakdown provides an informed analysis and perspective on the Jamaican government's budget for the new fiscal year. The national budget comprises the government's expenditure estimates (projections of the amounts that the government intends to spend throughout the course of the upcoming fiscal year) and revenue estimates (predictions about the amount of money that will be raised during the fiscal year). It is presented for parliamentary approval prior to the start of each fiscal year (April 1 to March 31). The budget is prepared by the Ministry of Finance and the Public Service and ostensibly reflects the government's development policies and priorities.

This report analyses Jamaica's budget for the fiscal year April 2026 to March 2027, aiming to uncover the development policies and priorities implicit within the numbers put forward. It achieves this by going beyond the headline figures to explain the underlying trends and shifts in priorities. This year, the objective is to understand how the massive fiscal impact of Hurricane Melissa has been accommodated – how it has affected the fiscal numbers and what the effects will be. As usual, the underlying goal is to enhance public understanding of how tax dollars are managed and thereby allow public engagement.



Two adjustments are necessary to accurately identify underlying trends in fiscal accounts. The first is an adjustment for inflation. The value of money changes over time due to inflation, which affects its purchasing power. To account for this, dollar amounts from previous years are adjusted upwards to reflect how much it would cost now to procure the same amount of goods and services. This process ensures that comparisons of budgetary figures across different years are not distorted by inflation. These adjusted amounts are known as "purchasing power equivalent" (PPE) dollars. The adjective "real" is synonymous, so a reference to a change in "real expenditure" indicates that it has been adjusted for inflation. By using PPE dollars, we can compare the actual volume of goods and services procured in different years on a like-for-like basis.

This adjustment allows for a clearer understanding of changes in budget allocations.

The second adjustment involves amortization, which is the repayment of debt principal. Similar to how loan receipts are not considered "revenue," repayments of loan principal are also not counted as "expenditure." This approach prevents double-counting of spending; it ensures that money is not recorded both in the year it is expended or received and again in the year it is financed or repaid. This adjustment keeps the assessment of revenues and expenditures clear and accurate.

Having made these necessary adjustments, the report will assess the fiscal vulnerability of Jamaica as well as the credibility and sustainability of the budget, assess the

The reported figures are in purchasing power equivalent (PPE) dollars whereby dollar amounts from previous years are adjusted upwards to reflect how much it would cost now to procure the same amount of goods and services. This process ensures that comparisons of budgetary figures across different years are not distorted by inflation.

costs and financing of Hurricane Melissa, and evaluate the disaster risk framework. We now take these in turn.

Fiscal Vulnerability

During the last fiscal year, Jamaica was impacted, in a rare literal application of that word, by the strongest tropical storm to make landfall in recorded history. Hurricane Melissa, with sustained winds topping 186mph, battered the western half of the island, racking up damage of some \$2 trillion, equivalent to 57 percent of GDP.¹ That is, more than half of all the value that the country produces in a typical year was destroyed on a Tuesday afternoon in October.

This may be viewed as an extraordinary event, a departure from the norm. At the same time, it should be seen within the context of the well-established vulnerability of a small Caribbean island. One element of this vulnerability is the frequency of those storms. Eight named storms have made landfall in Jamaica or have the eye pass nearby in the last half century (Gilbert, 1988; Gordon, 1994; Ivan, 2004; Dean, 2007; Sandy, 2012; Grace, 2021; Beryl, 2024; Melissa, 2025). That averages one roughly every six years.

Storms, however, are not the only source of vulnerability for a small island economy. During that same half century, Jamaica has had to manage the consequences of oil price shocks, global recessions, global financial crises, a local financial crisis, a pandemic, the outbreak of three simultaneous international wars, and disruption of international trade. Further, that list reveals that, unlike storms, the very nature of disruptions is often novel. Neither the COVID pandemic nor the new United States use of tariffs as a geopolitical tool were widely anticipated.

Operating in a vulnerable natural and economic environment has created some appreciation for the importance of resilience. This appreciation is already manifest in many ways, such as attention to storm-resistant construction techniques, economic diversification, and alternative sources of energy. The vulnerability has consequential fiscal implications as well, though, which have received less attention. Storms require the reconstruction and repair

of infrastructure and the provision of emergency services at the same time as the economic disruption results in a loss of tax revenue. Public health crises call for expenditure on health and medical services. Economic shocks reduce tax revenues.

The fiscal impact in turn affects the ability of a government to deliver the public services on which livelihoods and the functioning of the economy depend. If a disruption causes additional public expenditure and/or reduced revenue, then the government has less public funds to deliver safety, security, public health, infrastructure repair, and its other responsibilities. This can amplify rather than mitigate the primary impact of the disruption.

Recognition of the vulnerability that results in occasional temporary loss of income from anticipated shocks incentivises households and businesses to reduce income variability *ex ante* by opting for lower-risk jobs, business endeavours, and production technologies.² However, these risk-avoiding options generally mean conservative investment choices and hedging which yield lower returns, thereby reducing the long-term growth rate of the economy. To the extent,


therefore, that fiscal responses to disruptions are amplifying rather than mitigating the volatility, they are affecting the economy's growth rate and prospects for higher living standards.

Since the fiscal effects of these shocks are consequential for the rate of economic growth, attention must be paid to the adequacy of fiscal resilience – insulating the fiscal balance from the unmitigated effects of natural and economic shocks. Much has been made about the need to build resilience into the economy. A lesson of Hurricane Melissa is that, to the present primary objectives of fiscal policy such as equity, revenue generation, and infrastructure investment, should be added fiscal resilience.

As climate change promises to increase the intensity of tropical storms, and Melissa demonstrates what that now looks like, we can be assured it will not be the last of its kind. At the same time, novel global shocks will continue to affect such a small open economy. The need for and importance of fiscal resilience will therefore increase. It is time to examine its present capacity and look into how it can be strengthened. That examination is the task this report now takes up.



Amortisation (repayment of debt principal) and loan receipts are excluded from expenditure and revenue, respectively, to prevent double-counting of spending: it ensures that money is not recorded both in the year it is expended or received and again in the year it is financed or repaid.



Eight named storms have made landfall in Jamaica or have had the eye pass nearby in the last half century.



2

Credibility and Sustainability



The 2025 budget is explicitly premised on on a real GDP contraction of **0.5%**, inflation of **5.1%**, and a current account balance of **6.8%**

A credible budget is one for which the projected revenues and expenditures are likely to be realised. If a budget lacks credibility, evaluating its revenue proposals is not practical, as they are unlikely to materialise. Once a budget's credibility is confirmed, it is useful to explore the implications of proposed expenditures beyond the current budget cycle to understand their potential long-term effects. Sustainability of the budget refers to the long-term consequences of its revenue and expenditure plans, including their impacts on public debt and overall macroeconomic performance, extending past the immediate fiscal period. Here we assess both the credibility and the sustainability of the budget for the current fiscal year.

Credibility

The government's estimates in the budget are based on assumptions regarding GDP growth, inflation, and the current account balance (the difference between the value of exports plus net remittances and that of imports plus other recurrent inflows of foreign exchange). The 2026 budget is explicitly premised on a real GDP contraction of 0.5 percent, inflation of 5.1 percent, and a current account deficit of 6.8 percent.³

A key indicator of a budget's credibility is whether the government's expectations

are consistent with those of independent evaluators. The macroeconomic projections set out by the government do not align with forecasts from other authoritative sources. The projections from other sources vary considerably. At the top is the Bank of Jamaica's expectation of growth between 1 and 3 percent, reflecting a gradual recovery following the hurricane, including an anticipated normalisation in economic activity in Agriculture, Forestry and Fishing. The IMF's forecast for Jamaica is 1.5 percent growth. Meanwhile, the World Bank has projected a steep contraction of 2.3 percent.⁴ In the context of this wide variation, the Government's half a percent contraction is not out of line, but it does suggest that a great deal of faith should not be placed in that outcome. The government should therefore have a contingency for lower-than-expected revenue.

According to the Bank of Jamaica, inflation is expected to stabilize at 5.1 percent over the medium term, within the Bank's target range of 4-6 percent. Over the period March 2026 to December 2027, inflation is projected to average an annualized 5.9 percent, higher than the previous two-year average of 4.6 percent. This increase reflects elevated inflation expectations and increased domestic demand pressures, driven largely by an expansionary fiscal stance to support rebuilding efforts.⁵

A concern raised by the recently-established Independent Fiscal Commission is that the

government's revenue forecast, which is underpinned by a GDP deflator of close to 10 percent, may be overstated. This is because the projected CPI inflation rate of 5.1 percent is inconsistent with a GDP deflator almost five percentage points higher. Given that both indicators broadly reflect price dynamics in the economy, such a wide divergence is difficult to justify, particularly in a post-disaster context where reconstruction-related price pressures are typically delayed or staggered. As a result, the elevated GDP deflator may be overstating nominal GDP, thereby inflating revenue projections and understating debt and other key fiscal ratios.

The finance minister, disputing this charge, argues that it is incorrect to conflate inflation, as measured by the Consumer Price Index (CPI) with that measured by the GDP deflator. While the two indicators usually track together, the post-hurricane environment is expected to create a wider than usual variance between the two due to localized scarcity and shifts in domestic production. Furthermore, the government argues that the GDP deflator projection is not driven solely by government-executed reconstruction, but is influenced by private sector activity. The private sector will be the primary driver of near-term reconstruction price pressure through insurance-financed hotel refurbishment, household rebuilding, and foreign direct investment in damaged commercial

The government's expenditure projections did not benefit from a detailed Damage and Loss Assessment following Hurricane Melissa.

infrastructure. As this activity operates outside public procurement constraints and is already underway, it is expected to accelerate recovery and support the projected GDP deflator.⁶

Notwithstanding the minister's explanation, the large discrepancy between the CPI and GDP-deflator measures of projected inflation suggests some downside risk to the revenue forecasts, and underscores the uncertainty that surrounds the budget projections.

The current account deficit is projected to average 6.8 percent of GDP, consistent with the Bank of Jamaica's estimate of 6-7 percent.⁷ This outlook is based on a deterioration in the merchandise trade balance due to increased imports to support the hurricane recovery efforts, partially offset by improvements in the services balance as tourism recovers and stopover arrivals increase.⁸

The government's expenditure projections, the Independent Fiscal Commission's report argued, did not benefit from a detailed Damage and Loss Assessment (DaLA) following Hurricane Melissa, nor from operational and expenditure plans of the National Reconstruction and Resilience Authority (NARRA).⁹ Instead, the projections rely on preliminary and incomplete post-disaster assessments, limiting the ability to accurately estimate medium-term impacts. In addition, insufficient information on the operations, expenditure plans, and implementation capacity of NARRA further weakens the confidence in the projections. These gaps affect growth projections, nominal GDP, revenue forecast, expenditure timing, and current account forecasts (international trade taxes particularly), all of

which are necessary for assessing fiscal and debt outcomes.¹⁰

Overall, while Jamaica's fiscal framework remains strong, the credibility of the 2026 budget is subject to risks and more variability than usual. This is due, not to a failure of diligence on the part of the finance ministry but rather to the underlying uncertainties in an economy recovering from massive natural disaster. The divergence between the government's projections and those of other major institutions, particularly regarding GDP, reflects that underlying uncertainty, and therefore raises concerns about the reliability of the macroeconomic assumptions underpinning the budget.

At the same time, institutional safeguards, including the Fiscal Responsibility Framework and an independent central bank, provide important guardrails against unrealistic projections. Despite ongoing vulnerabilities stemming from external economic conditions and climate-related risks, Jamaica has strengthened its resilience through a comprehensive risk management strategy. This includes disaster risk financing instruments, contingency funds, insurance mechanisms, strategic arrangements with international financial institutions, and a sustained commitment to maintaining relatively low and stable debt levels.

Sustainability

A budget must promote fiscal and economic sustainability, as it is essential to the continuing functioning of government and to a stable macroeconomic environment.¹¹ The key pillars of sustainability include

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commitment to the Fiscal Responsibility Framework (FRF), a medium-term objective of debt reduction, the maintenance of primary surpluses (that is, the fiscal balance minus the servicing of debt), and the presence of disaster risk financing instruments since fiscal buffers will be needed from time to time. When fiscal policy deviates from a sustainable trajectory, future stability is threatened, reflected in higher interest rates to compensate for the elevated risk, thereby diminishing prospects for economic growth.

Jamaica has maintained a sustainable fiscal position over the past decade with the core objective of debt reduction. However, following Hurricane Melissa, the debt trajectory was reversed with debt-to-GDP projected to rise to 68.2 percent at the end of fiscal year 2025/26, up from 62.4 percent at the end of the previous fiscal year.¹² Despite this setback, the debt-to-GDP ratio is expected to resume its downward path, declining to 65.7 percent by the end of the fiscal year 2026/27 (Figure 1), with the government targeting 60 percent by the end of fiscal year 2029/30.¹³

Achieving this objective will require firm expenditure discipline and sustained, buoyant revenue performance over the medium term.¹⁴

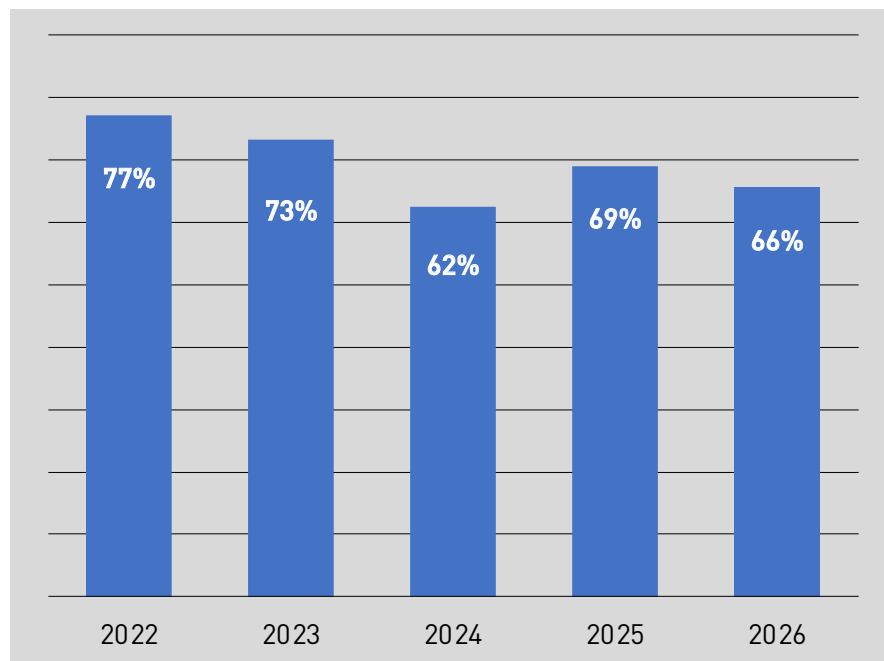


Despite ongoing vulnerabilities stemming from external economic conditions and climate-related risks, Jamaica has strengthened its resilience through a comprehensive risk management strategy.


Jamaica's public debt, forced to uptick by the hurricane, is to continue on its downward trend.



Public Debt (as a percentage of GDP)



Source: Ministry of Finance and the Public Service, various years.

A photograph of three people in a meeting. A man in a teal sweater is on the left, smiling and holding a white card. A woman with her hair in a bun is in the center, seen from the back. A man with glasses is on the right, looking towards the woman. They are sitting around a table in a modern office setting with large windows and indoor plants.

The 2026 budget is best characterized as a stabilization and recovery plan necessitated by the impact of Hurricane Melissa.



Maintaining fiscal and debt sustainability will depend on disciplined expenditure management, effective implementation of revenue measures, and stronger institutional capacity to ensure that recovery spending translates into sustainable economic growth.



The 2026 budget is best characterized as a stabilization and recovery plan necessitated by the impact of Hurricane Melissa. The activation of the escape clause under the Fiscal Responsibility Framework temporarily suspends the fiscal rules through March 2027, allowing for urgent and necessary recovery and reconstruction spending. Consequently, the timeline to achieve the long-targeted threshold of a 60 percent debt-to-GDP ratio has been extended from the fiscal year 2027/28 to the fiscal year 2029/30. To support this adjustment, the government introduced a substantial tax package totaling \$29.4 billion for the fiscal year 2026/27, including a new Special Consumption Tax (SCT) on non-alcoholic sweetened beverages (projected to yield J\$10.1 billion), along with increases in taxes on alcohol, cigarettes, and the Environmental Protection Levy.

The sustainability of the 2026 budget remains vulnerable to several medium-term risks. While disaster risk financing has provided much-needed short-term liquidity, it does not fully mitigate these underlying risks. Key risks include

geopolitical tensions affecting fuel and commodity prices, uncertainties surrounding the efficiency and execution of the NARRA's reconstruction plans, and Jamaica's continued exposure to climate-related shocks. In addition, recurrent and potentially large reconstruction costs could disrupt fiscal consolidation efforts and place upward pressure on debt levels. These risks, combined with the challenges of implementing new revenue measures and managing a rising wage bill, highlight persistent vulnerabilities despite existing institutional safeguards.

The Independent Fiscal Commission assesses that Jamaica's fiscal sustainability remains intact, supported by a resilient Fiscal Responsibility Framework and well-developed disaster-risk financing layers. However, it cautions that the inconsistencies in the nominal GDP growth projection and the GDP deflator may lead to overestimation of revenue and an understatement of the debt-to-GDP ratio, thereby presenting a more favourable fiscal outlook than may materialize. While debt sustainability is not immediately at risk, the medium-

term trajectory is subject to downside risks. These risks stem from uncertainties surrounding macroeconomic projections as well as structural fiscal pressures such as rising wage expenditures and reliance on one-off revenue measures. Furthermore, persistent weaknesses in public investment execution and institutional capacity may limit the growth-enhancing impact of fiscal policy, thereby slowing the pace of debt reduction.¹⁵

Overall, Jamaica's fiscal framework remains fundamentally strong, and debt sustainability is not immediately at risk. The country's commitment to debt reduction, primary surpluses, and the Fiscal Responsibility Framework continues to provide an anchor. However, the impact of Hurricane Melissa has reversed recent debt gains and introduced new fiscal pressures. As such, maintaining fiscal and debt sustainability will depend on disciplined expenditure management, effective implementation of revenue measures, and stronger institutional capacity to ensure that recovery spending translates into sustainable economic growth.



3

Trends and Divergences



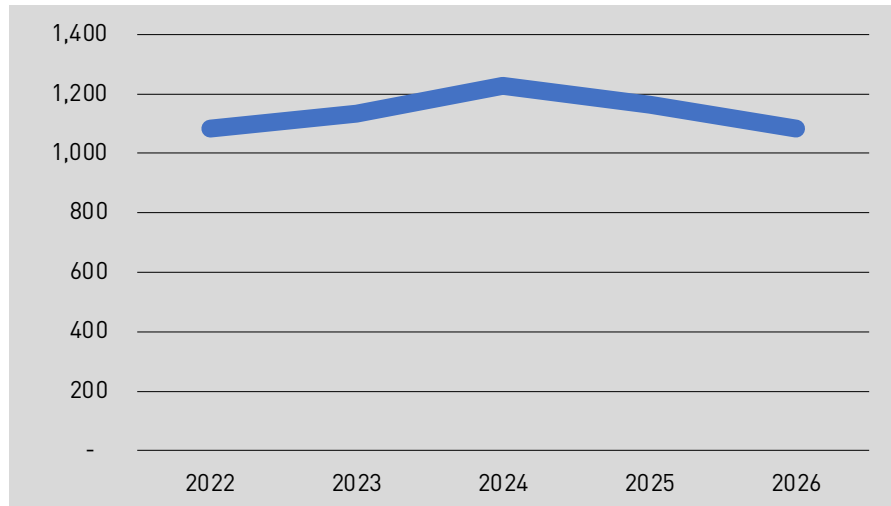
CAPRI estimates the fiscal cost of the disaster, across two years, at **\$198 billion**

The challenge facing the government for the new fiscal year is accommodating the fiscal cost of the hurricane damage. After adjusting for inflation, expected revenue for the 2026/27 fiscal year will be \$143 billion less, that is almost 12 percent lower, than it was two years ago (Figure 2). That would have been even \$30 billion lower if not for the package of taxation announced at the start of the budget debate. All sources of revenue reflect that decline. Even with the new taxes, revenue from taxes on income and profits (income tax) are to be four percent lower, on production and consumption (GCT and SCT) down seven percent, and on international trade (import tariffs) down by 2 percent, for a combined tax revenue loss of \$43 billion, compared to two years ago.

The sum of the catastrophe bond, the CCRIF insurance, and the government's own disaster fund accounted for only \$47 billion of the \$198 billion estimated fiscal cost of the disaster, that is, less than a quarter.

After adjusting for inflation, expected revenue for the new fiscal year will be almost 12 percent below what it was two years ago.

2 Government Revenue (\$b adjusted for inflation)



Source: Ministry of Finance and the Public Service.

The projected reduction in receipts from all categories of taxes is the result of the loss of economic activity after the hurricane destroyed buildings and infrastructure in the western half of the island. Loss of income by businesses and therefore individuals becomes loss of income tax and consumption tax revenue for the government. This affected revenue in the 2025/26 fiscal year, so aggregate revenue for that

year was less than both the previous year, by 7 percent, and the budgeted revenue for 2025/26 itself, by 9 percent.

In addition to the loss of tax revenue, non-tax income had been inflated two years ago from the securitisation of the divestment of Norman Manley airport – a one-off – so non-tax revenue is \$100 billion less, for total income reduction of \$143

Expected revenue for the 2026/27 fiscal year will be **143 billion** less (adjusted for inflation), that is almost **12%** lower, than it was two years ago, and \$30 billion lower if not for the package of taxation announced at the start of the budget debate.

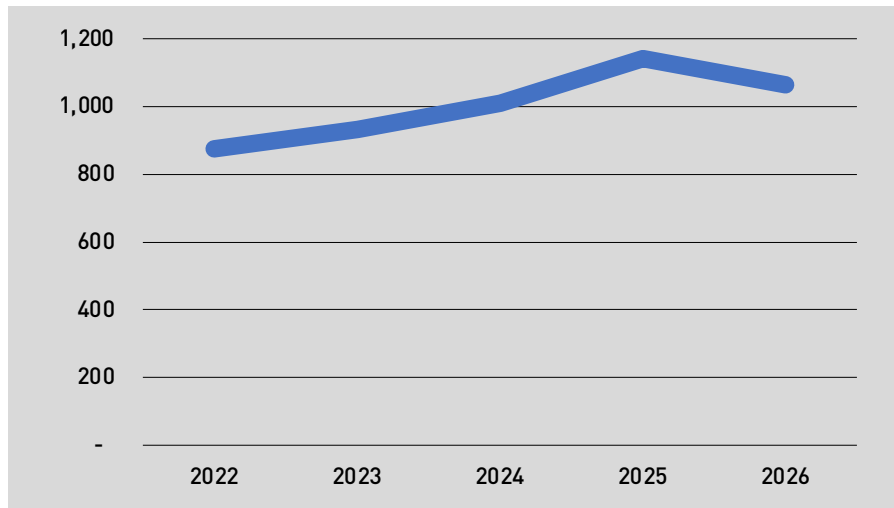
billion, or 12 percent, over two years. This establishes the necessity of the additional tax measures announced with the budget.

Over the same two-year period, expenditure is budgeted to be 5 percent, that is \$50 billion, higher in real terms, entirely due to the repair and rebuilding of hurricane damage (Figure 3). The cost of hurricane relief and recovery exceeds that amount but expenditure cuts have been made elsewhere, mainly from expenditure related to economic activities and support, which has contracted by 25 percent or \$41 billion.



Expenditure is budgeted to be some \$54 billion more than it was two years ago, reflecting hurricane spending.

3 Government Expenditure (\$b adjusted for inflation)



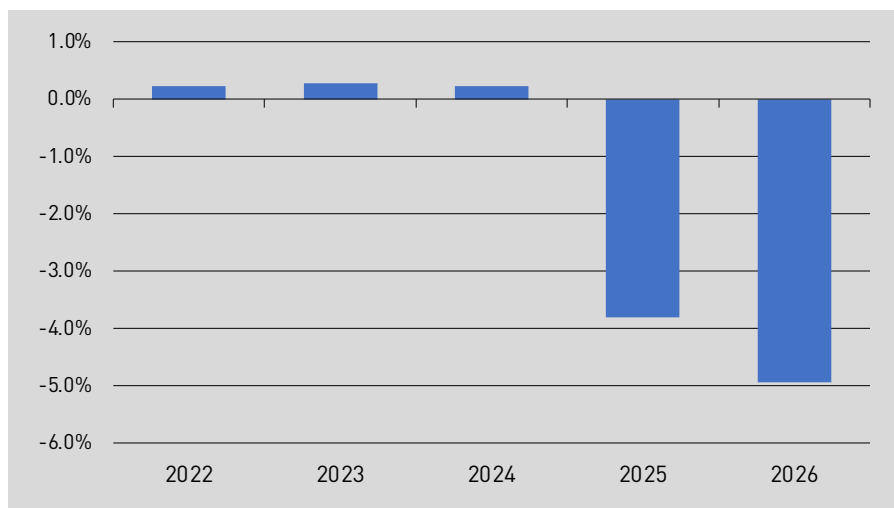
Source: Ministry of Finance and the Public Service, various years.

In this way, a fiscal deficit of some \$191 billion, or 4.9 percent of GDP, has opened up, following the deficit of 3.8 percent in 2025/26 also hurricane induced. This is a departure from the long record of more-or-

less balanced budgets (that is, imbalances within a half a percent of GDP, except for the years of the pandemic) which started 15 years ago.

Hurricane Melissa has opened up a deficit after years of balanced budgets.

4 Fiscal Balances (percent of GDP)



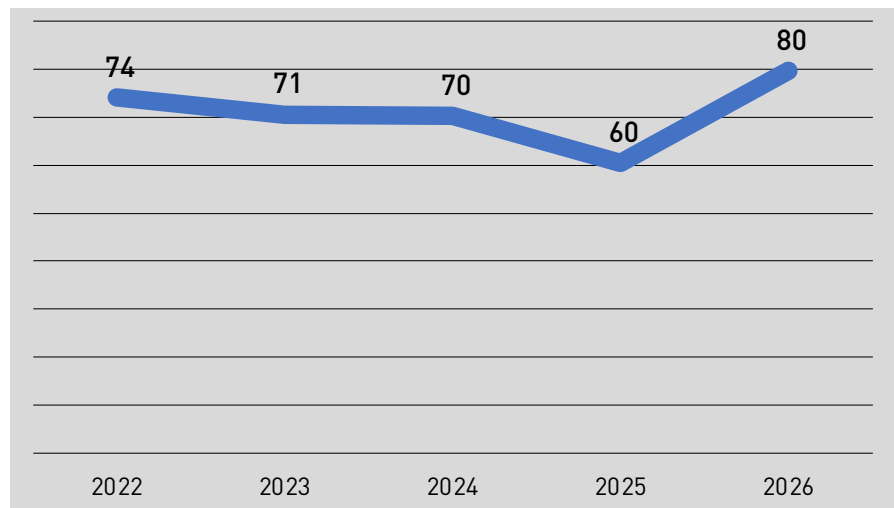
Source: Ministry of Finance and the Public Service, various years.

Capital expenditure, at \$80 billion, will reach its highest level in seven years, even adjusted for inflation (Figure 5). This understates the extent of the reconstruction since some of it, perhaps as much as \$20 billion, is classified under programmes.



Projected capital expenditure has escalated for hurricane reconstruction.

5 Capital Expenditure (J\$b)



Source: Ministry of Finance and the Public Service, various years.

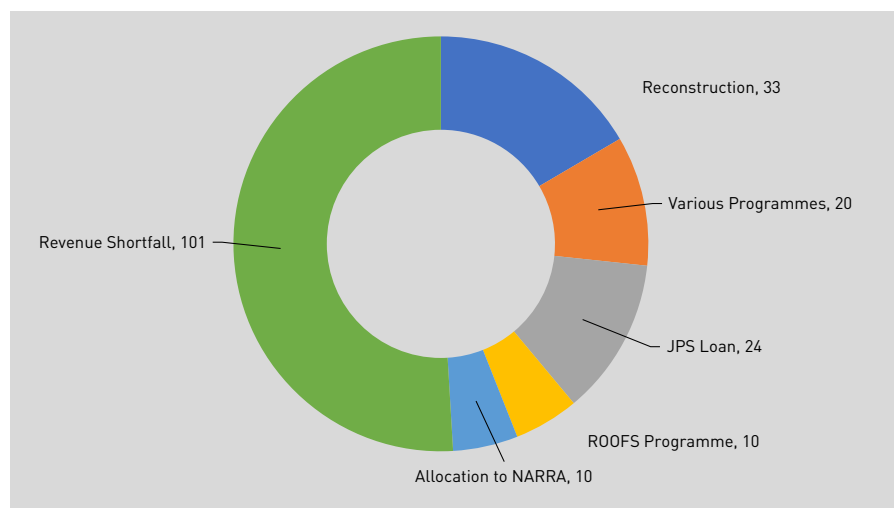
Fiscal trends have, once again, been upended by a catastrophe. Revenue and expenditure trajectories have been disrupted as this has been happening irregularly but frequently throughout the country's history. The fiscal accounts have contorted to accommodate the shock to normal revenue and expenditure. To understand how the accommodation was made, we now turn explicitly to that analysis.¹⁶

Paying for Melissa

Here we attempt to aggregate the total fiscal cost of the hurricane over the two fiscal years 2025/26 and 2026/27, and try to identify how it was accommodated through expenditure reductions, debt and non-debt financing instruments, as well as new taxes. Across the two years, the estimated fiscal cost of the disaster reaches, by our own estimate, \$198 billion.

Half of the fiscal cost of the hurricane is due to the loss of revenue.

6 Fiscal Cost of Hurricane Melissa (\$b)



Source: Ministry of Finance and the Public Service.

The true fiscal cost of the hurricane is twice the amount of expenditure it entails once the revenue loss is accounted for.



The government has deployed a layered financing strategy, utilizing a mix of immediate liquidity and long-term borrowing to rapidly finance a sudden, nearly **\$200 billion** obligation in order to mitigate the current fiscal impact of Hurricane Melissa.

Approximately \$32 billion covers critical utility and infrastructure restoration and rebuilding and cleanup in the 2025/26 fiscal year. This sum consists of damage and general infrastructure accounting for J\$7.2 billion, covering road repairs and the procurement of five thousand containerised folding units for rapid, temporary housing solutions.¹⁷ Additionally, J\$4.6 billion is allocated for cleanup efforts, funding the National Solid Waste Management Authority's pre- and post-hurricane relief alongside support for municipal corporations. Other essential recovery measures include J\$3.4 billion for the recovery of the tourism sector, \$3.2 billion to restore water and sewage networks, and J\$3 billion for relief within the agriculture and fisheries sectors. There is support to enterprises by the Development Bank of Jamaica's M5 Business Recovery Programme at J\$3 billion to restore operations, rebuild capacity, and sustain enterprise continuity

following the passage of the hurricane, while J\$1.5 billion targets repairs to critical non-road infrastructure, and J\$0.4 billion initiates Phase 1 of the Hurricane Melissa Rehabilitation Programme for Public Health.¹⁸

A \$24.2 billion loan was controversially made to the Jamaica Public Service to support the quick restoration of the electricity grid, and \$10 billion was allocated to the Restoration of Owner or Occupant Family Shelter (ROOFS) programme (Jamaica's largest housing-recovery initiative), which provides one-off housing grants to eligible households, who lost their roofs in the most heavily affected parishes.¹⁹

As the recovery extends into the 2026/27 period, the government has earmarked an additional J\$67 billion in costs. This phase is primarily driven by a J\$10 billion allocation to the National Reconstruction

and Resilience Authority (NARRA) and a further \$20 billion allocated to programmes for ongoing restoration.

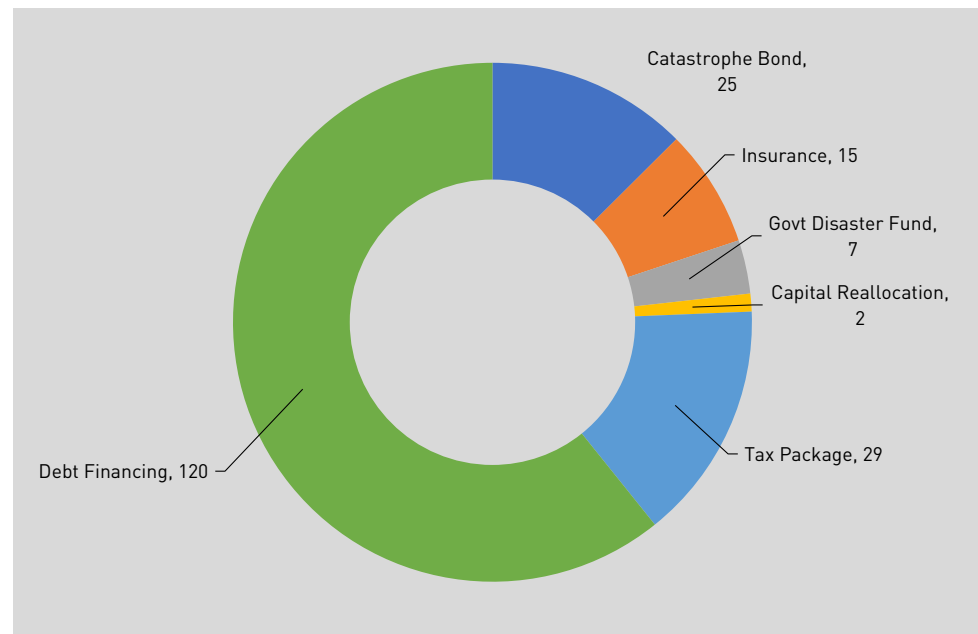
Finally, the hurricane also carries a fiscal cost that does not appear on the expenditure side: the loss of tax revenue from business disruption and job losses, which reduces receipts from both income and consumption taxes. Aggregated over the two fiscal years, that revenue loss is estimated to be some \$100 billion.²⁰ This is instructive since it means that the true fiscal cost of the hurricane is twice the amount of expenditure it entails once the revenue loss is accounted for.

How does a country rapidly finance a sudden, nearly \$200 billion obligation? The government has deployed a layered financing strategy, utilizing a mix of immediate liquidity and long-term borrowing to mitigate the current fiscal impact (Figure 7).

Notwithstanding a raft of contingent, emergency financing, nearly two-thirds of the fiscal need had to be borrowed.



Financing the Cost of Hurricane Melissa (\$b)

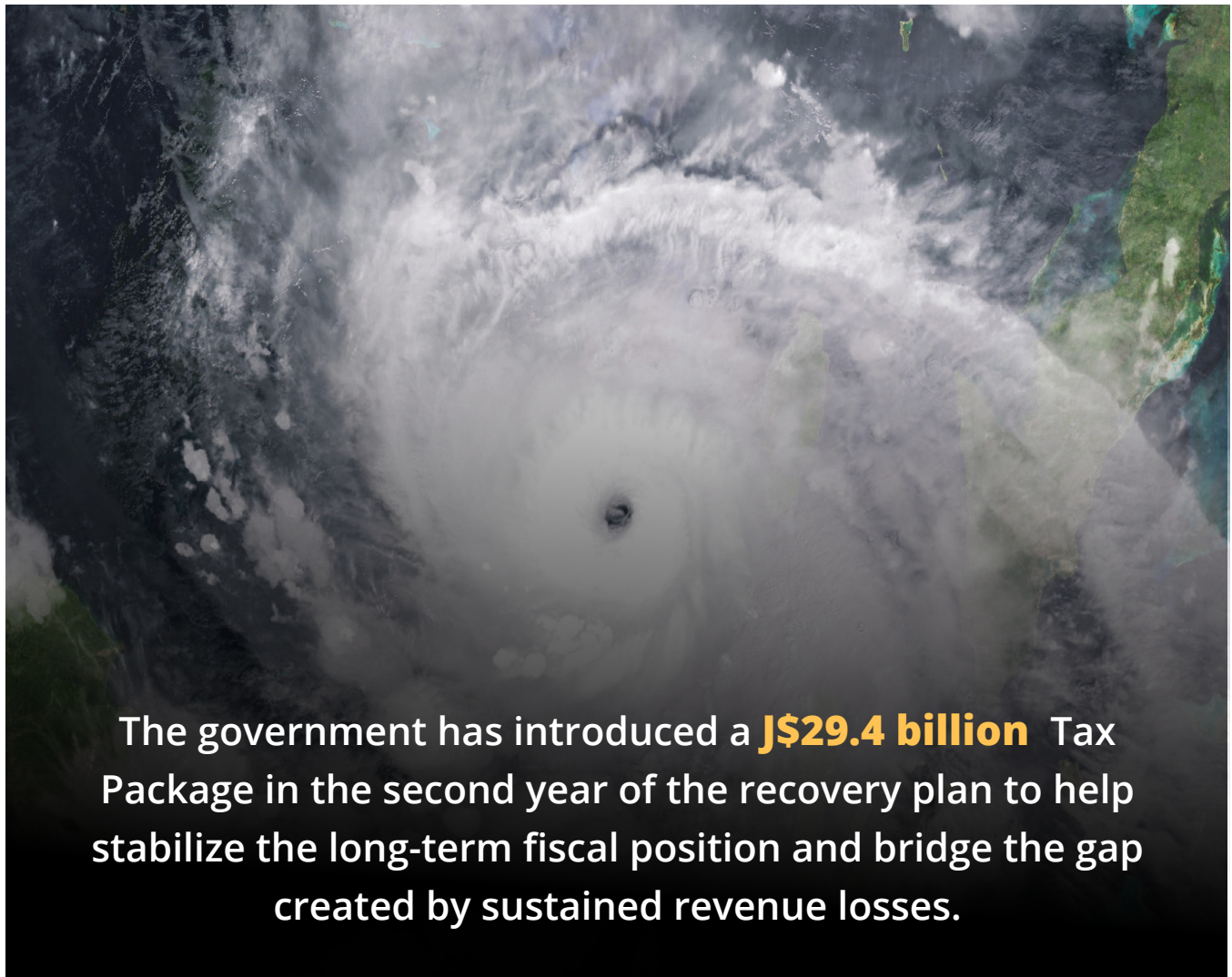


Source: Ministry of Finance and the Public Service.

On the financing side, non-debt instruments provide a first layer of support totaling J\$48.1 billion. This is anchored by a J\$23.7 billion CAT Bond and J\$14.5 billion from the Caribbean Catastro-

phe Risk Insurance Facility (CCRIF), both of which are forms of "parametric insurance", meaning that payouts are triggered by "parameters" – pre-defined intensity and impact measures, such as

wind speed and barometric pressure. The advantage of this approach is rapid disbursement, since payouts do not have to wait for damage assessments, which can take weeks to complete. Jamaica received



The government has introduced a **J\$29.4 billion** Tax Package in the second year of the recovery plan to help stabilize the long-term fiscal position and bridge the gap created by sustained revenue losses.

\$11.2 billion under its Tropical Cyclone policy, the largest single payout in CCRIF history, alongside \$3.3 billion from its Excess Rainfall policy, both within 14 days of trigger verification.²¹ These funds are typically used for early response and liquidity support rather than long-term reconstruction. The CAT bond similarly transfers risk to capital markets, with payouts activated under specific disaster conditions. Additional sources, such as the government's disaster fund and capital reallocation, provide further flexibility but remain relatively limited compared to overall needs.

Much of the remaining cost is financed by J\$120 billion in multilateral debt instruments designed for crisis flexibility. The International Monetary Fund (IMF) Rapid Financing Instrument (J\$66 billion) provided swift, low-conditional support for urgent balance-of-pay-

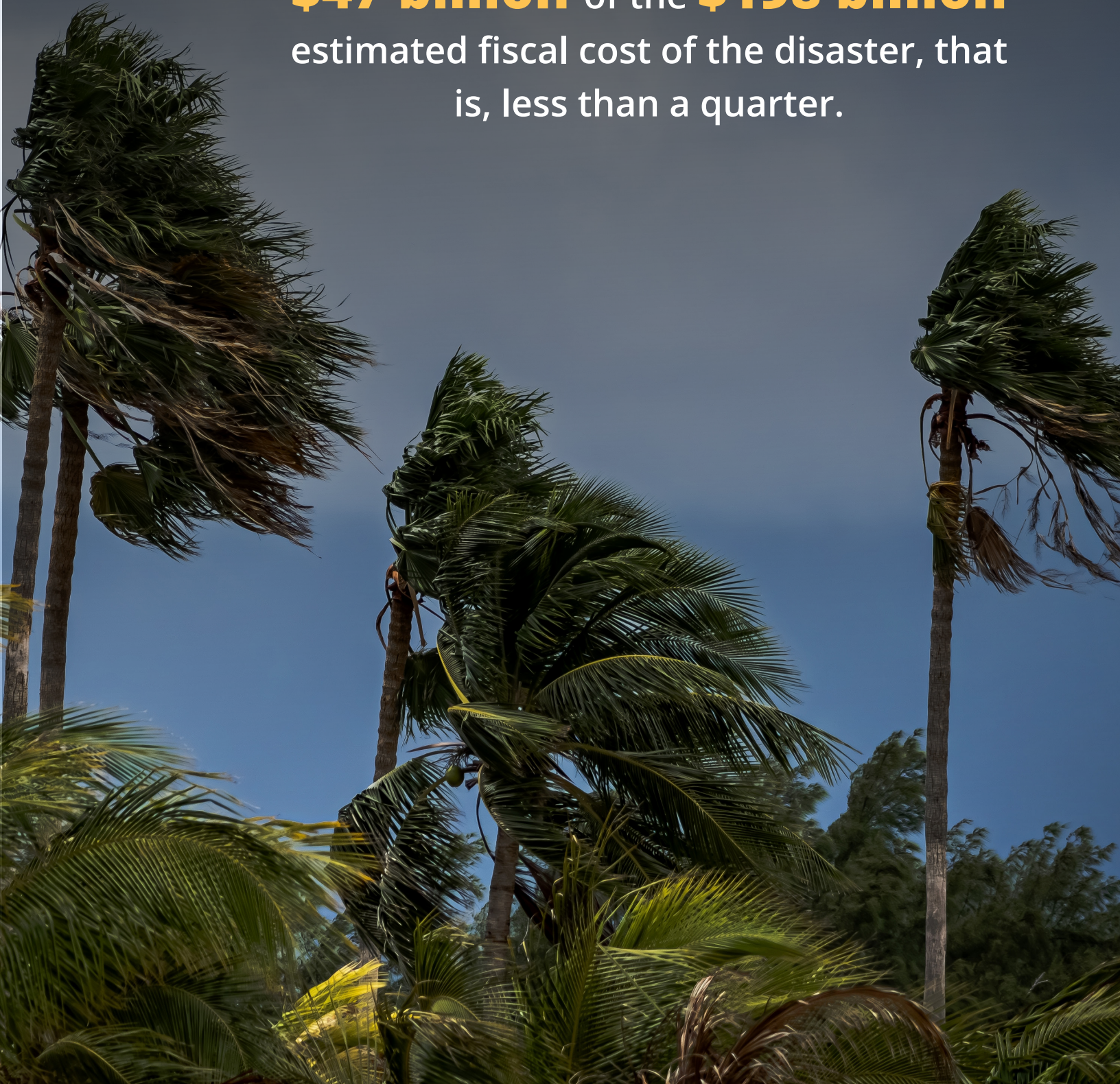
ments needs, allowing for a one-time disbursement without a full economic programme, while the Inter-American Development Bank (IDB) Contingent Credit Facility (J\$47.4 billion) acted as a high-speed bridge-financing mechanism, delivering funds within 15 to 30 days, to cover extraordinary public expenses until longer-term funding is secured.²² These are supplemented by the World Bank Catastrophe Deferred Draw-down, CAT-DDO (J\$6.6 billion), which acts as a contingent credit line for immediate financing following a natural disaster and serves as a final liquidity buffer.²³ Together, these debt instruments allowed the government to bypass the "debt trap" of high-interest commercial borrowing.

Finally, to help stabilize the long-term fiscal position and bridge the gap created by sustained revenue losses, the government has introduced a J\$29.4 billion Tax

Package in the second year of the recovery plan. This suggests that the government is attempting to rebalance after the initial reliance on external borrowing.

Jamaica's disaster response framework, combining contingency credit, insurance, and fiscal measures, is relatively sophisticated by regional standards, yet the scale of Hurricane Melissa still necessitates substantial borrowing and other fiscal adjustments. Notwithstanding its structure and sophistication, the sum of the catastrophe bond, the CCRIF insurance, and the government's own disaster fund accounted for only \$47 billion of the \$198 billion estimated cost, that is, less than a quarter. With disasters of this scale being an ever-present risk for a small Caribbean country, the adequacy of the disaster risk framework needs to be examined. It is to that we now turn.

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4

Disaster Risk Framework



The non-debt portion of the Disaster Risk Framework represents only a quarter of the fiscal cost of Melissa, revealing a “resilience gap.”

The foundation of fiscal risk management is balanced accounts and low public debt. Disasters often require unplanned expenditure and/or entail a loss of tax revenue. If the government is already running an ex ante fiscal deficit of five percent of GDP or more, there is little room to worsen that without alarming investors and the capital markets, with further detrimental consequences. In the presence of opening or widening the fiscal deficit, additional government borrowing will be necessary. If the existing level of debt is well within the sustainable range, then new debt will be accessible. If public debt is near or above 100 percent of GDP, however, new borrowing will either be inaccessible or only at punitive rates, risking a debt spiral.

Beyond responsible management of deficits and debt, the government had established a multi-layered Disaster Risk Management (DRM) framework to mitigate the effects of disasters of this nature, if not to this extent. The arrangement successfully mobilized just over US\$1 billion, approximately J\$166 billion in immediate non-discretionary liquidity through a combination of reserve funds, parametric insurance, contingent credit, and a catastrophe bond.²⁴ This rapid cash injection stabilised the immediate post-disaster environment and demonstrated the efficacy of parametric triggers.



Notwithstanding the breadth of the framework, the total sum mobilised represents only about 8 percent of total physical damage, while the non-debt portion represents only a quarter of the fiscal cost, revealing a “resilience gap.” The long-term effect of the debt portion of the financing is financing cost in years to come. The framework was necessary for immediate survival but insufficient for comprehensive recovery, with the gap between the two necessitating a transition from rapid liquidity to long-term multilateral borrowing. As the 2026 hurricane season approaches, the challenge is therefore not merely replenishing the exhausted instruments, such as the fully redeemed Catastrophe Bond, but funda-

mentally evolving the risk management framework to bridge that gap. Disasters of this magnitude will impact the country again.

The Disaster Risk Management Act 2015 enshrined Jamaica’s shift from reactive disaster relief to a proactive, multi-layered fiscal resilience strategy. This framework was designed to address the spectrum of climate risks facing a small, highly indebted island state, from high-frequency, low-intensity events to the low-frequency, high-intensity shocks that threaten economic stability.²⁵ For a decade, this structure provided a credible backstop. However, the framework was conceived

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to manage risk, not to survive its absolute worst-case scenario. That scenario arrived in October 2025 with Hurricane Melissa, a storm whose wind speeds might have put it in a Category 6 had such a classification existed.

The first line of defense, or "Layer 1," relies on domestic reserves for immediate, high-frequency needs. This retention layer, comprising the Contingency Fund and the National Natural Disaster Reserve Fund (NNDRF), is designed for rapid deployment without external approval. Following Melissa, these funds provided a first tranche of \$5.8 billion, enabling the Office of Disaster Preparedness and Emergency Management (ODPEM) and municipal corporations to begin life-saving operations, clear critical infrastructure, and distribute emergency supplies within the first 72 hours.

For medium-frequency events, the strategy shifts to risk transfer and pre-arranged credit, which performed remarkably quickly. This Layer 2 was activated with historic efficiency. The CCRIF SPC, a parametric insurance provider, triggered a record combined payout of US\$92 million under its Tropical Cyclone and

Excess Rainfall policies, with funds transferred within 14 days of the event. Simultaneously, the government activated its pre-approved credit lines, drawing US\$300 million from the Inter-American Development Bank (IDB) Contingent Credit Facility (CCF) and US\$42 million (scalable to US\$84 million) from the World Bank's Catastrophe Deferred Drawdown Option (Cat-DDO). These funds, totaling approximately US\$392 million, provided essential budget support to maintain government operations and initiate the early stages of recovery.²⁶

At the apex of the strategy, "Layer 3" engages capital markets to cover the most severe, low-probability events. The 2024 World Bank Catastrophe Bond was structured to protect against exactly this scenario. When Hurricane Melissa's central pressure fell below the parametric trigger specified in the bond's terms, it resulted in a 100 percent principal payout of US\$150 million. This capital market instrument functioned exactly as designed, providing a substantial, formula-driven injection of funds without the need for on-the-ground damage assessments, proving the value of transferring peak risk to global investors.

While the framework successfully delivered the liquidity needed in the immediate aftermath of the storm, that sum was inadequate compared to the scale of the disaster. The strength of the parametric instruments—the CCRIF payout and the Cat Bond—lies in their speed and automaticity. They provided the government with the fiscal space to respond without delay, a crucial advantage over traditional aid. However, this rapid cash covers only the initial emergency phase. The framework's strength in providing immediate liquidity inadvertently masks a structural vulnerability: the inevitable and sizeable transition to long-term debt. The J\$40 billion, while vital, was a fraction of the resources needed; Jamaica ultimately negotiated a J\$120 billion multi-year recovery package with the IMF, World Bank, and the IDB. This reliance on post-disaster borrowing transforms a physical shock into a protracted fiscal one, with direct consequences for the debt sustainability gains of the past decade.

The immediate post-Melissa reality is replenishment of the financial toolkit before the 2026 Atlantic hurricane season. The 2024 Catastrophe Bond was fully redeemed upon payout and thus no longer



The Disaster Risk Management Act 2015 enshrined Jamaica's shift from reactive disaster relief to a proactive, multi-layered fiscal resilience strategy.



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provides protection. Negotiations for a new issuance should commence promptly. The Minister of Finance has confirmed the renewal of CCRIF SPC policies for May 2026, maintaining at least that layer of risk transfer, though these instruments are now more expensive to secure.²⁷ The government's projected J\$191 billion fiscal deficit for FY2026/27, driven by recovery spending and revenue shortfalls, will place some pressure on debt-to-GDP targets, and may complicate the terms on which future credit is accessed, potentially increasing the cost of new insurance and bond issuances.²⁸

Beyond replenishment, scaling up is necessary. A replacement catastrophe bond should provide at least 50 percent more and possibly twice the payout of the last one. CCRIF coverage should be increased to the extent that the facility can accommodate it. Annual contributions to the Contingency Fund and the National Natural Disaster Reserve Fund also need to rise. This will increase the annual cost of disaster mitigation, diverting public resources from other pressing needs. But the expenditure will occur regardless of when the disaster arrives; a greater in-

vestment in the risk-mitigating instruments merely anticipates it, and thereby smooths it over time.

New financing instruments can help to redirect funds during the recovery phase. "Disaster-Clause Bonds," which allow for the deferral of interest payments in the event of a defined catastrophe would prevent a liquidity crunch from turning into a solvency crisis in the immediate post-disaster period, and the trigger need not be limited to natural disasters. Blended finance, combining public and private funding, can be directed towards climate-resilient infrastructure—roads, bridges, water systems, and ports that can withstand Category 5 winds—rather than simply rebuilding to previous standards. IDB Invest, the International Finance Corporation, and the Multilateral Investment Guarantee Agency have projected US\$2.4 billion in private investment opportunities in Jamaica that could be structured with this objective in mind.²⁹ Finally, the recent amendment increasing the limit for pension fund investment in private equity to 7.5 percent opens a pool of domestic capital that, channeled into bankable, climate-resilient infrastructure

projects, could reduce future dependence on external payouts.

Jamaica's Disaster Risk Framework proved its worth in the immediate aftermath of Melissa. The speed and volume of liquidity it delivered stabilized the fiscal position at a moment of acute stress and validated the principles of risk layering and parametric triggers. The more demanding lesson of Melissa, however, is that the framework was sized for disasters the country had already experienced, not for the one that has now set the new benchmark. The gap between what the framework mobilised and what the disaster cost is not merely a financing problem: it reflects the difference between protecting cash flow in the immediate term and protecting the physical asset base over the longer term. Scaling up the existing instruments, introducing new financing tools, and directing recovery investment towards more durable infrastructure are the steps needed to close that gap. In so doing it will ensure that reconstruction raises the standard of what is built, rather than simply restoring what was there before.



5 Conclusion



The 2026 budget is credible, though with more uncertainty attached to that assessment than in prior years.

The 2026 budget is explicitly premised on a real GDP contraction of 0.5 percent, inflation of 5.1 percent, and a current account deficit of 6.8 percent. The credibility of those projections is difficult to assess with the confidence of previous years, not because the finance ministry has been less than rigorous, but because the underlying economy is harder to read in the aftermath of a disaster of Melissa's scale. The government's growth assumption sits within the wide range offered by independent forecasters, but the divergence between the CPI and GDP deflator projections introduces downside risk to revenue that warrants a contingency. On balance, the budget is credible, though with more uncertainty attached to that assessment than in prior years.

On sustainability, the picture is similarly qualified. Jamaica's decade-long commitment to debt reduction has not been abandoned, but it has been interrupted. The debt-to-GDP ratio, which had fallen to 62 percent before the hurricane, is projected to rise to 68 percent before resuming its downward path, with the 60 percent target now deferred to fiscal year 2029/30. The activation of the escape clause under the Fiscal Responsibility Framework was appropriate given the circumstances, and the medium-term consolidation path remains intact. The risks to that path—from uncertain revenue

performance, rising reconstruction costs, and a demanding wage bill—will require sustained expenditure discipline to manage.

The fiscal cost of Hurricane Melissa, as this report estimates it across the two years of its impact, is \$198 billion. That figure comprises approximately \$98 billion in direct expenditure on recovery and reconstruction, and an estimated \$100 billion in lost tax revenue, a reminder that the fiscal consequences of a disaster extend well beyond what the government has to spend. Nearly three-quarters of that cost has had to be financed through borrowing, notwithstanding the substantial and swift deployment of the disaster risk framework. The framework performed as designed; one lesson of Melissa is that it was not adequate for a disaster of this magnitude.

That observation bears on the most consequential question this budget raises, which is not one of credibility or sustainability in the conventional sense, but of fiscal resilience. Jamaica has built, over the past decade, a fiscal position that was strong by the standards of any economy, large or small, rich or poor. Melissa demonstrated both the value of that foundation and its limits. The country was able to absorb the shock without a fiscal crisis, but it was not able to absorb it without a substantial and prolonged increase in debt. Closing the resilience

gap through scaled-up insurance and contingent financing, new instruments that smooth the cost of recovery over time, and reconstruction that raises rather than merely restores the standard of the physical asset base is the fiscal priority that this budget, and the ones that follow it, will need to address.

The fiscal cost of Hurricane Melissa, across two years, is estimated by CAPRI at \$198 billion - approximately \$98 billion in direct expenditure on recovery and reconstruction, and an estimated \$100 billion in lost tax revenue.

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Recommendations

Given Jamaica's heightened exposure to climate-related shocks and global economic shocks, the strengthening of fiscal resilience in general, and the rebuilding of disaster-risk financing (DRF) instruments following recent drawdowns after Hurricane Melissa is essential. High-intensity events are not one-off occurrences but part of a recurring risk profile, placing sustained pressure on public finances. Therefore, the Government cannot rely solely on existing buffers without a plan for their restoration and strengthening. Probabilistically, the next disaster could be this year. Therefore rebuilding these instruments should be treated as a fiscal priority. In this context, institutionalizing a rules-based approach to rebuilding DRF instruments would support the sustainable management of Jamaica's climate-related and other fiscal risks.

**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.

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.

2**3**

CCRIF coverage should be increased to the extent that the facility can accommodate it.

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.

4

Recommendations



5

Disaster-clause bonds should be added to the risk management framework. These are bonds that defer either or both principal payments and interest payments for a defined period after a disaster hits.

The structure and amount of the disaster risk framework should be subject to periodic actuarial audits for their adequacy in relation to the likelihood and estimated damage from the disaster risks.

6



Endnotes

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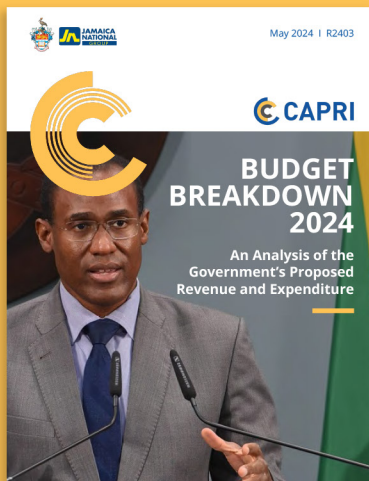
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