

Validation of Extending the Suspension of the Fiscal Rules

Independent Fiscal Commission

Jamaica, West Indies

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EXECUTIVE SUMMARY

Validation of Further Suspension of the Fiscal Rules

The Independent Fiscal Commission (IFC) has assessed the request of the Minister of Finance and the Public Service to extend the suspension of the fiscal rules for an additional fiscal year, FY 2027/28, pursuant to Section 48C(4) of the *Financial Administration and Audit (FAA) Act*.

Based on the Minister's submission and the IFC's own independent assessment of Jamaica's macroeconomic and fiscal situation, the **Commission concludes that the residual fiscal impact of Hurricane Melissa remains *significant* and continues to materially affect Jamaica's fiscal outcome and outlook**. The Commission finds that higher-than-initially estimated costs associated with Hurricane Melissa, slower nominal GDP growth and weaker fiscal revenues, have altered the medium-term macro-fiscal profile envisaged when the *Fiscal Policy Paper* for FY 2026/27 was tabled, contributing to a delayed debt reduction path.

Accordingly, the Commission validates the extension of the suspension of the fiscal rules for FY2027/28.

Key Findings

The Commission's validation is based on *at least* four principal findings:

1. **Hurricane Melissa Costs:** The estimated cost of Hurricane Melissa has been revised upward to $1,953.2 billion (US$12.2 billion, 56.7 percent of 2024 GDP), $555.1 billion (US$3.5 billion or 39.7 percent) **higher than initially estimated**, indicating sustained fiscal pressures associated with recovery and rebuilding efforts.

2. **Nominal GDP:** A projected **2.2 percentage points underperformance in cumulative nominal GDP growth (FY 2026/27–FY 2029/30)** relative to *Fiscal Policy Paper (FPP)* forecast is anticipated to dampen tax base expansion and slow the downward trajectory of the debt-to-GDP ratio

3. **Fiscal Revenues:** Government revenues continue to **underperform relative to budget projections**, partly reflecting the lingering economic effects of Hurricane Melissa.

4. **Debt-to-GDP:** Arising from the aforementioned factors, the **Government's debt reduction trajectory has deteriorated relative to the assumptions that underpinned the FPP for FY 2026/27**, resulting in the intended timeline for a new

statutory **debt ratio target being deferred from FY 2029/30 to FY 2031/32**. The debt-to-GDP ratio is now projected to **fall from 65.5 percent in FY 2025/26 to 58.8 percent in FY 2031/32**.

Taken together, these developments validate that the consequences of Hurricane Melissa continue to significantly hamper the Government's ability to comply with the fiscal rules within the previously approved timeframe.

SECTION I: BACKGROUND AND MINISTER'S REQUEST

Context

Jamaica's Fiscal Responsibility Framework (FRF), established through amendments to the *Financial Administration and Audit (FAA) Act* and the *Public Bodies Management and Accountability (PBMA) Act*, promotes fiscal discipline and prudent debt management through legally binding fiscal rules.

The framework was strengthened in 2014 through the introduction of "escape clauses", now contained in Section 48C of the *FAA Act,* which permit the temporary suspension of the fiscal rules in specified circumstances. In 2021, the *Independent Fiscal Commission Act* established the Independent Fiscal Commission (IFC) as an independent institution of Parliament with responsibility for promoting sound fiscal policy and prudent fiscal management.

Hurricane Melissa and the Initial Suspension

On October 28, 2025, Hurricane Melissa, a Category 5 hurricane, made landfall in Jamaica, causing extensive damage to infrastructure, housing, public services, and productive sectors, particularly in the western parishes.

Following the declaration of Jamaica as a disaster area under the *Disaster Risk Management (Hurricane Melissa) Order, 2025*, the provisions of Section 48C of the *FAA Act* were activated.

In November 2025, the Commission assessed the fiscal impact of Hurricane Melissa and validated an estimated *cumulative* fiscal cost of 5.3 percent of GDP over FY 2025/26 to FY 2029/30, exceeding the statutory threshold of 1.5 percent of GDP required to suspend the fiscal rules.

Following that validation and the affirmative resolution of Parliament, the fiscal rules were suspended until the end of FY 2026/27. Relatedly, the Minister of Finance further expressed an intent to push back the legislated target date for achieving a public debt-to-GDP ratio of 60 percent or less to FY 2029/30.

Minister's Request

During November 2026, the Minister of Finance requested that the Commission assess whether the residual impact of Hurricane Melissa remains significant enough to warrant a further one-year extension of the suspension.

To support its request, the Ministry indicated that:

- revenues are running, and expected to remain, below expectations;
- reconstruction expenditure requirements remain significant;
- nominal GDP growth has been weaker than anticipated; and
- these factors combined will delay the achievement of the debt target, now projected for FY 2031/32.

SECTION II: LEGAL FRAMEWORK

This assessment is undertaken pursuant to Section 48C(4) of the *Financial Administration and Audit (FAA) Act*, which permits the extension of the suspension of the fiscal rules where the Fiscal Commissioner validates that the residual impact of the triggering event remains significant enough to warrant continued suspension.

Under Section 48C(2) of the *FAA Act*, the fiscal rules may be suspended following specified events, including the declaration of a public disaster, severe economic contraction, financial sector crisis, or public emergency. Hurricane Melissa satisfied the public disaster provisions of the *Act* and formed the basis for the original suspension of the fiscal rules.

Pursuant to Section 48C(3), the initial suspension *required* independent validation by the Fiscal Commissioner that the fiscal impact of the disaster equalled or exceeded 1.5 percent of GDP, together with an Order made by the Minister responsible for Finance and approved by affirmative resolution of Parliament. In November 2025, the Commission validated an estimated *cumulative* fiscal impact of 5.3 percent of GDP, exceeding the statutory threshold and supporting the original suspension.

Section 48C(4) provides that, following the initial suspension period, the suspension may be extended for one additional financial year where the Fiscal Commissioner *validates* that the residual impact of the eventuality remains significant.

For the purposes of this assessment, the Commission considers a residual impact to be significant where it continues to materially affect Government's ability to comply with the statutory fiscal balance and public debt requirements within the previously approved timeframe.

Accordingly, the Commission's role in this report is not to reassess whether Hurricane Melissa justified the original suspension. Rather, the Commission's current task is to determine whether the residual effects of Hurricane Melissa continue to materially affect Jamaica's fiscal position to such an extent that an extension of the suspension of the fiscal rules is warranted under Section 48C(4) of the *FAA Act*.

SECTION III: ASSESSMENT FRAMEWORK AND INDEPENDENT FISCAL COMMISSION ASSESSMENT

Assessment Criteria

In assessing whether the residual impact of Hurricane Melissa remains significant, the Commission considered whether the hurricane continues to materially affect:

1. Government expenditure requirements;
2. Government revenue performance;
3. Economic growth and nominal GDP;
4. The public debt trajectory; and
5. The Government's ability to achieve compliance with the fiscal rules within the previously approved timeframe.

Independent Fiscal Commission Assessment

The Commission finds that the higher-than-initially estimated costs associated with Hurricane Melissa, combined with slower nominal GDP growth and weaker-than-projected fiscal revenues, have deteriorated the medium-term macro-fiscal outlook relative to that presented in the *Fiscal Policy Paper* for FY 2026/27. These developments have worsened projected fiscal balances and is therefore expected to delay the achievement of the Government of Jamaica's targeted debt reduction path (**Table 1**).

Absent an extension, compliance with the fiscal rules would require fiscal adjustment of a magnitude that could adversely affect the pace of ongoing recovery and reconstruction efforts.

The Commission therefore considers that an extension of the suspension period is warranted under Section 48C(4) of the *FAA Act*.

Table 1: Key Evidence Supporting the Validation		
Area	**Key Evidence**	**Fiscal Implication**
Original Fiscal Impact	The estimated cumulative fiscal impact of Hurricane Melissa was previously validated at 5.3 percent of GDP, exceeding the statutory threshold of 1.5 percent of GDP.	Justified the original suspension of the fiscal rules.
Hurricane Melissa Costs	Damage and loss estimates increased from US$8.8 billion (41 percent of GDP) initially to US$12.2 billion (57 percent of GDP).	Indicates larger and more prolonged recovery and reconstruction requirements.
Economic Activity	Nominal GDP growth is projected to be weaker than the projections that informed the Fiscal Policy Paper for FY 2026/27.	Slower nominal growth reduces the pace of debt reduction and fiscal adjustment.
Revenue Performance	Revenue and Grants were $27.8 billion below budget during April-September 2026, with tax revenue accounting for $22.6 billion of the shortfall.	Suggests ongoing fiscal pressures and reduced fiscal space even after controlling for non-Melissa timing-related factors ($7.5 billion).
Debt Path	The debt target of 60 percent of GDP or less proposed to be deferred from FY 2029/30 to FY 2031/32.	Demonstrates a material deterioration in the fiscal outlook.

Source: IFC compilation.

Assessment of Reconstruction Costs

The Commission notes that the cost of Hurricane Melissa is 39.7 percent higher than initially estimated.

Preliminary post-disaster assessments undertaken by the World Bank and the Inter-American Development Bank (IDB) estimated damage at approximately US$8.8 billion, equivalent to 41 percent of GDP. Updated estimates prepared by the Inter-American Development Bank and the Economic Commission for Latin America and the Caribbean (ECLAC) place the cost of the disaster at approximately US$12.2 billion, or 57 percent of GDP.

While these estimates represent economy-wide losses rather than direct fiscal costs, the increase suggests larger recovery and reconstruction requirements, a longer recovery period, and sustained demands on public resources. Information on the magnitude and schedule of NaRRA-related spending to be undertaken over the medium-term is not yet available. This important expenditure information would have been useful to more comprehensively assess the medium-term residual impact of Hurricane Melissa. Nevertheless, the Government's expenditures associated with recovery and resilience-building are expected to increase in the coming year and remain elevated over the medium term. In this regard, the Central Government projects a $21.8 billion (0.5 percent of FY 2027/28 GDP) increase in Capital Expenditure for FY 2027/28.

Assessment of Economic Growth

The Ministry projects a slower pace of nominal GDP growth relative to the assumptions underpinning the *FPP* for FY 2026/27 when it was tabled.

Cumulative nominal GDP growth from FY 2026/27 to FY 2029/30 is projected to fall 2.2 percentage points below the FPP forecast. Slower nominal GDP growth - stemming from the continued effects of Hurricane Melissa on economic activity - weakens revenue flows and reduces the pace at which debt ratios decline, thereby constraining the Government's ability to return to the original fiscal adjustment path.

Assessment of Revenue Performance

Revenue performance remains below budget expectations. For the period April to September 2026, Revenue and Grants amounted to $529.2 billion, which was $27.8 billion below budget. Tax Revenue accounted for $22.6 billion of this shortfall.

The Commission notes that part of the revenue underperformance reflects timing-related factors, including the earlier-than-expected receipt of certain corporate income tax payments. However, the Ministry also attributes a portion of the revenue shortfall to the lingering economic effects of Hurricane Melissa, which is plausible amid the slower-than-programmed nominal economic growth. The Commission expects the sluggishness in revenue inflows to persist through the remainder of the current fiscal year and into FY 2027/28.

Assessment of the Fiscal Outlook and Debt Path

The combined effect of higher recovery and reconstruction expenditure, slower nominal GDP growth and weaker fiscal revenues has altered the Government's near and medium-term fiscal outlook. **These developments have resulted in a slower pace of fiscal adjustment than previously anticipated and will have the effect of delaying achievement of the statutory debt target.** The debt-to-GDP ratio is now projected at 65.5 percent at the end of FY 2026/27 and to decline to 62.3 percent by FY 2029/30. As a result, the Government proposes to defer the achievement of its debt target of 60 percent of GDP or less from FY 2029/30 to FY 2031/32. **Under the revised projections, the debt-to-GDP ratio is expected to decline to 58.8 percent in FY 2031/32.**

The Commission considers this revision to be a material indicator that the residual effects of Hurricane Melissa continue to affect fiscal sustainability.

SECTION IV: RISKS AND UNCERTAINTIES

The Commission notes that notable uncertainty remains regarding:

- the ultimate cost of reconstruction activities;
- the timing and quantum of expenditures to be undertaken through the National Reconstruction and Resilience Authority (NaRRA);
- the pace of economic recovery;
- future revenue performance; and
- broader domestic and external economic conditions.

Consequently, the medium-term fiscal outlook remains subject to both upside and downside risks.

SECTION V: CONCLUSION

Validation Statement

I have reviewed the submission from the Ministry of Finance and the Public Service, together with other fiscal and economic information available to inform my assessment and position.

Based on the evidence presented, **I conclude that the residual impact of Hurricane Melissa remains *significant* within the meaning of Section 48C(4) of the *Financial Administration and Audit A*ct.**

I further conclude that expected higher recovery and reconstruction costs, slower nominal GDP growth, weaker revenue performance and outlook, and the resulting delay in achieving the statutory public debt target continue to materially affect the Government's ability to comply with the fiscal rules within the previously approved timeframe.

Accordingly, **I validate the extension of the suspension of the fiscal rules for FY2027/28.**

Implications for the Minister

Following this validation, the Minister with responsibility for Finance may proceed to make the requisite Order, subject to affirmative resolution of Parliament, permitting the suspension of the fiscal rules to continue for an additional fiscal year in accordance with Section 48C(4) of the *FAA Act*.



Courtney H. Williams (Mr.)
Fiscal Commissioner

APPENDICES

APPENDIX I: MOFPS' SUBMISSION

Report to the Independent Fiscal Commission
On
Fiscal and Debt Impact of Hurricane Melissa
And Proposed
Extension of the Fiscal Rules

After the approval of the FY 2026/27 Annual Estimates of Expenditure, Jamaica's fiscal operations exhibited shortfalls in its revenues (tax and non-tax) in the first half (April-September) of the fiscal year, impacted by an economy that was still in recovery from the impact of Hurricane Melissa, which struck on October 28, 2025. The Category 5 hurricane caused a major economic shock, resulting in extensive infrastructure damage and loss of life/livelihoods, particularly in the western parishes.

The revisions to the forecast of some key macroeconomic variables are provided below.

Macroeconomic Variables	Forecast	FY 2026/27 Proj.	FY 2027/28 Proj.	FY 2028/29 Proj.	FY 2029/30 Proj.
Nominal GDP growth rate (%)	Current	7.8	8.6	6.5	6.5
	FPP 2026	9.2	8.7	7.7	6.0
Real GDP growth rate (%)	Current	1.0	2.4	1.5	1.5
	FPP 2026	-0.5	3.3	2.6	1.0
Inflation: Annual Pt to Pt (%)	Current	6.9	5.1	5.0	5.0
	FPP 2026	5.1	5.0	5.0	5.0
Oil Prices - WTI (Average US$/barrel)	Current	84.9	74.8	65.0	65.0
	FPP 2026	60.0	60.0	62.5	65.0

Fiscal Impact of Hurricane Melissa on the Central Government Budget

The Ministry of Finance & the Public Service has developed a medium-term fiscal profile based on the revised macroeconomic projections and available information regarding public spending requirements. The revised profile shows that Central Government Tax Revenue, proposed for the First Supplementary Budget, is projected to fall by $7.8 billion (0.8 percent) below the FY 2026/27 Approved Budget. This downward revision relative to the Approved Budget reflects a reduction in revenue equivalent to (0.4 percent of GDP) due to the lingering effects of Hurricane Melissa on the economy. At the same time, total non-debt recurrent expenditure is projected to increase by $13.7 billion relative to the FY 2026/27 Approved

Budget. Capital expenditure has a proposed reduction, as NaRRA is not anticipated to begin reconstruction until FY 2027/28. The non-debt recurrent increase, relative to the Approved Budget, reflects Hurricane Melissa related (housing) and compensation commitments. Consequently, the fiscal deficit is projected to deteriorate by 0.1 percent of GDP, from 4.9 percent to 5.0 percent of GDP.

Non-Tax Revenue is now projected to be $92.6billion, a shortfall of $4.7 billion (4.9 percent) relative to the Approved Budget. Grants have also been revised to approximately $4.0 billion, a shortfall of $1.3 billion against the Approved Budget. As a result, overall Revenue and Grants is now projected to have a shortfall of $13.8 billion relative to the Approved Budget.

The recovery and reconstruction efforts, associated with Hurricane Melissa are projected to continue over the medium-term, primarily impacting the Capital expenditure of the Central Government. A net zero contribution to the overall Specified Public Sector balance over the medium-term is assumed for the Public Bodies.

The debt-to-GDP ratio is now projected to end FY 2026/27 at 65.5 percent and FY 2029/30 at 62.3 percent. Based on these projections, it was therefore deemed prudent to extend the target date outwards by another two fiscal years.

Rationale for extension of the suspension of the fiscal rules

The MOFPS has assessed the lingering fiscal impact of Hurricane Melissa, to have continued throughout the April-September period of this year. This has caused our projections for Revenue & Grants to exhibit a shortfall, aforementioned, amounting to $13.8 billion, against the Approved Budget. Total Non-debt Recurrent Expenditure is projected to increase by $13.7 billion, against the Approved Budget. The fiscal deficit is now projected to widen, by 0.1 percent of GDP to 5.0 percent.

Importantly, the projected fiscal deficit for FY 2027/28, is projected to be approximately 4.0 percent, occasioned by higher levels of expenditure, particularly capital expenditure with a projection of $91.5 billion. Due to the significant reconstruction work that is envisaged for NaRRA, and the difficulty to attain the legislated debt/GDP target by FY 2029/30, the GOJ will require more time to reduce the public debt to 60% of GDP. In this regard, the GOJ intends to extend the suspension of the fiscal rules and extend the target date by another two years through an amendment to the FAA Act.

Conclusion

Jamaica’s economy continues to recover from the severe economic shock arising from the passage of Hurricane Melissa. This is expected to cause adverse residual impacts on the fiscal accounts (loss in Tax Revenues and increase in Expenditure to respond to the socio-economic

challenges). As a consequence of the foregoing, the GOJ will move to extend the suspension of the fiscal rules, by one more financial year and also extend the target date for the debt/GDP to FY 2031/32.