

Recent flooding may affect Czech budget and inflation

We see the overall flood damage at 0.5% of Czech nominal GDP, while the reported estimate of insured damage accounts for 0.2%. The cost may impact this year's budget and medium-term inflation



Houses in a flood-affected area following heavy rain in the town of Ostrava, Czechia

Flood damage estimated between the 2002 and 2013 disasters

The floods of 2002 represent a natural disaster that caused the most damage in Czechia in modern history. The Czech National Bank's 2002 annual report assessed the impact on GDP and inflation as small, with the floods not significantly affecting the Board's decision. The macroeconomic impacts, including fiscal ones, were deemed unlikely to be substantial. The report envisaged a slowdown in real GDP growth of between 0.2 and 0.3 percentage points in 2002 while providing an additional positive impulse for the next year, roughly of the same magnitude but with a positive sign.

We look at the floods from 2002 and 2013 to quantify and compare the expected impact on the Czech economy. The recent floods seem less damaging than the devastating event of 2002 in terms of economic cost, yet more severe than the 2013 floods. At the same time, several factors prevented higher losses compared to previous floods. Meteorologists provided early warnings, which proved to be very accurate. The individual river basins responded by releasing dams to

accommodate the massive water influx. The infrastructure was better prepared than at any time before.

Insured losses from this year's floods are about to reach CZK 17bn, according to the first estimates of the Association of Insurance Companies. Approximately half of the damages are incurred by households and the other half by businesses. Individual insurance companies are gradually collecting client reports, expecting tens of thousands of claims.

Overall damage estimated at 0.5% of GDP

Year	Overall damage (CZK bn.)	Share of nom. GDP (%)	Insured damage (CZK bn)	Share of nom. GDP (%)
2002	73.3	2.7	36.7	1.4
2013	15.3	0.4	7.5	0.2
2024	39.8	0.5	17.0	0.2

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Costs could impact the budget and inflation

Given the timely warning, more advanced flood control measures, and good organisation before and during the catastrophe, we expect the economic damage to be closer to the 2013 flooding. We see the overall damage at 0.5% of nominal GDP, while the reported estimate of insured damage accounts for 0.2%. The cost for the general government is estimated to reach 0.3% of nominal GDP or CZK 24bn.

The final bill for the flooding could impact the planned government budget for this year. The Ministry of Finance has indicated it could possibly alter the budget. Some funding for critical events is already budgeted, while some resources can probably be obtained from the EU funds. The Ministry of Finance has a lot of cash in its accounts and reserves, yet some increase in the supply of Czech government bonds cannot be excluded in the coming months. We may see a positive effect on consumer prices in the medium term due to higher demand for durable goods as households replace destroyed appliances and cars. The elevated need for construction work will likely provide a boost to prices in this segment.

Author

David Havrlant

Chief Economist, Czech Republic

420 770 321 486

david.havrlant@ing.com

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