

Updated: Polish flood damages may be limited but GDP impact could be higher than that

Although the scale of humanitarian losses cannot be properly counted, we think available data suggests the economic damages of the flood may be relatively benign, c.0.3-0.7% of GDP. We also see a limited impact on both inflation and Poland's fiscal stance, while the impact on GDP may be higher than the scale of damages would suggest



Polish President Andrzej Duda visits the flood-affected town of Glucholazy, southwestern Poland

Economic toll far less severe than in 1997

Based on municipalities under a state of emergency this year and the number of municipalities affected during previous crises, we compared the disaster area to previous floods (of 1997 and 2010). We also took into account the population in the aforementioned municipalities, the number of companies registered etc., as well as the construction of large retention reservoirs, which have helped to preserve large cities around the Odra river, which was severely hit in past. The resulting number indicates that the severity of this year's flood should be only a fraction of the 1997 disaster (see the table below).

The relatively benign scale of damages this year reflects the fact that unlike in 1997, big cities (like Wrocław, Opole, Racibórz, Kędzierzyn-Koźle) were largely unaffected. Moreover, the regions affected in 2024 are not typically associated with large industry, warehousing, or in general national value chains. Based on public sector loss estimates of previous flood damages, we conclude that the damages caused by this year's flood are equivalent to c.0.3-0.7% of GDP, or PLN11-25bn. Estimates may be subject to some corrections, given that the floods are not over yet. This includes both damages to private property and public infrastructure.

2024 flood – ING estimates of damages

| | 1997 | 2010 | 2024 |
|-------------------------|------|------|----------|
| Municipalities affected | 215 | 162 | 107 |
| Losses (% of GDP) | 2.3 | 0.9 | 0.3-0.7* |
| Losses (in 2024 PLN) | 83.6 | 29.1 | 11-25* |

Source: Supreme Audit Office, *- ING estimates

Fiscal burden likely limited as well

Poland is also unlikely to bear a significant fiscal burden from the flood. Based on state documents, in the wake of the floods of 1997 and 2010, the government decided to spend an equivalent of around 20% of total losses on relief efforts (including reconstruction). However, both the previous and the current governments are clearly more social-oriented (as seen in the details of the 2025 budget proposal), hence the scale of aid measures may be higher this time. That said, even doubling the relief scale, it should not cost more than a few tenths of GDP this year in total (0.15-0.35% of GDP) and initially PLN2bn was allocated. We also think the preliminary comments from members of the government show a rather limited fiscal burden. Any spending on flooding should be excluded from estimates that the European Commission is using for the purpose of the Excessive Deficit Procedure.

While a considerable amount, the European Commission announced that countries affected by the floods will be allowed to reallocate up to €10bn of EU Funds to relief efforts. Based on the government's announcements, Poland will be allowed to allocate up to around €5bn and that should be additional funding from Cohesion Funds, which Poland would otherwise not spend. Consequently, we expect the government to rely mostly on the EU to fund the relief efforts. We also think this disaster should encourage the central and local governments to spend more on infrastructure to prevent future damage from floods, which scientists predict will be more frequent. That should not burden the next general government sector too much, as the additional allocation of €5bn of EU funds on top of the already available Cohesion Funds and Recovery and Resilience Facility should be mainly used for that purpose.

The relief measures for affected households and businesses announced so far include aid for households (direct, up to PLN10,000; for reconstruction, up to PLN200,000; mortgage relief but covered by the guarantee scheme funded by banks, not the government), companies (i.e. instalment of tax dues) and farmers (i.e. agricultural tax reliefs).

Limited impact on inflation and NBP rates, positive on GDP

We do not expect a pronounced impact on prices either. Even after the disastrous 1997 flood,

monthly changes in CPI (both total and for example, food prices) were very limited compared to a typical seasonal pattern. Additionally, there is a vocal media campaign shaming retailers for increasing prices in areas affected by the flood. Also, the scale of the damage seems limited compared to the size of the economy and the disaster has occurred at a time of low capacity utilisation in all kinds of construction companies, both building infrastructure and housing. We rather worry that reconstruction post-flood (limited in scale) may coincide with the acceleration in RRF and Cohesion projects, but it is the latter which will have more impact on inflation, and mainly in 2026.

The impact on GDP should be positive and even higher than estimates of flood damages (0.3-0.7% of GDP) would suggest. The government should help rebuild areas affected but may also undertake additional investments and may count on extra EU funds (€5bn or 0.6% of GDP), not available before the floods. The infrastructure investments undertaken after the flooding should have quite high multiplier effects. The past experiences suggest reconstruction works may be split between years, so we assume about 0.2-0.35% of GDP may add to 2024 GDP growth and more in the following years.

We do not expect the 2024 flood to have a significant impact on the National Bank of Poland's policy ahead.

This article has been updated to reflect our latest estimates of flood damages.

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