

## Press Release 10/2019

Halle (Saale), 4th April 2019

### Service providers in Berlin give boost to East German economy – implications of the Joint Economic Forecast and of official data on the East German economy in 2018

In its spring report, the Joint Economic Forecast group states that the upturn in Germany came to an end in the second half of 2018, mainly because the manufacturing sector is weakening due to a slowing international economy and to problems in the automotive industry. Accordingly, in places such as Saxony (1.2%), Thuringia (0.5%), and Saxony-Anhalt (0.9%), where manufacturing plays a particularly important role, gross domestic product (GDP) grew less than in Germany as a whole (1.4%).

„Still, growth in East Germany was, with 1.6%, a bit higher, because the economy in Berlin expanded by 3.1%”, says Oliver Holtemöller, Head of Department Macroeconomics and Vice President at the Halle Institute for Economic Research (IWH). During the whole upswing between 2014 and 2018, production in East Germany has expanded somewhat faster than the German economy due to the high growth dynamics of service providers in Berlin.

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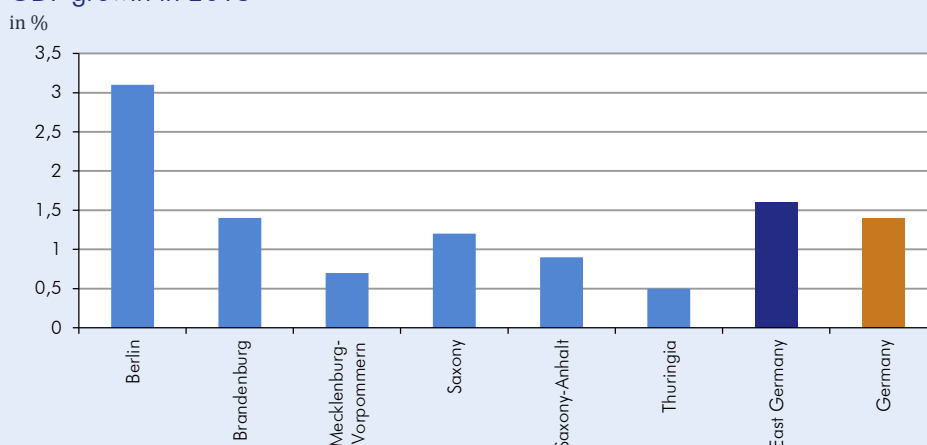
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**Figure 1**  
GDP growth in 2018



Source: Regional Accounts VGRdL.

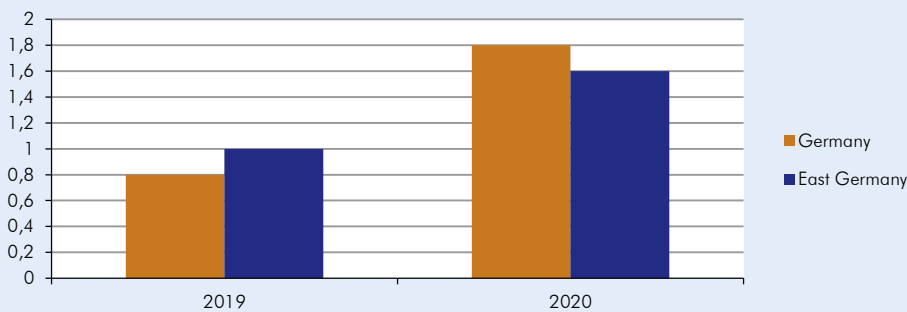
For 2019, the institutes forecast an increase in German GDP by no more than 0.8%, mainly because international sales prospects have deteriorated. The economy is supported by consumer-related services, which benefit from the significant increase in disposable income. This is particularly true of East Germany, as unemployment is falling faster in the West. In addition, growth momentum in Berlin is likely to con-

tinue. However, many East German companies find it increasingly difficult to expand production because in this region, skilled labour is, for demographic reasons, particularly scarce. Therefore, East German employment has recently slowed down by more than in the rest of the country.

**Figure 2**

### GDP growth in 2019 and 2020

in %



Source: IWH forecast.

All in all, IWH forecasts that the **East German economy** (including Berlin) **will grow** by 1.0% in 2019 (Germany: 0.8%), after 1.6% in 2018 (Germany: 1.4%). In the following year, East German production is expected to expand by 1.6% (Germany: 1.8%). According to the definition of the Federal Employment Agency, the unemployment rate should fall from 6.9% in 2018 to 6.4% in 2019 and 6.3% in 2020 (Germany in 2018: 5.2%, 2019: 4.8%, 2020: 4.6%).

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processes with a focus on efficient capital allocation in a national and European context. Particular areas of interest for the institute are macroeconomic dynamics and stability, microeconomic innovation processes, productivity and labour markets, the dynamics of structural adjustment processes, financial stability and growth and the role of financial markets for the real economy.

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