

## Press Release 12/2021

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### **Economy in East Germany shrank less than in the West, but will have weaker momentum when pandemic disappears – Implications of the Joint Economic Forecast Spring 2021 and new data for East Germany**

At 3%, the increase in gross domestic product in eastern Germany in 2021 is likely to be lower than in Germany as a whole (3.7%), as the slump due to the pandemic was smaller in 2020. In the course of the economic recovery in the second half of the year, the unemployment rate is expected to fall slightly.

In its Spring Report, the Joint Economic Forecast Project Group states that the ongoing pandemic will delay the upswing in Germany until well into the summer. This also applies to East Germany, even more so as at present (mid-April) Thuringia, Saxony and Saxony-Anhalt are the states with the highest incidences nationwide. Until last autumn, the pandemic was not widespread in East Germany. That is one reason why production here in 2020 shrank less (by 3.8%) than in Germany as a whole (-4.9%). Oliver Holtemöller, Head of the Department Macroeconomics and Vice President at the Halle Institute for Economic Research (IWH) says that also the special economic structure contributed to this: In East Germany, two economic sectors that expanded last year have a greater weight than at the national level; these are the construction sector and in particular the sector "public administration, education and health" (see figure).

If the rates of change in the main economic sectors in 2020 for Germany are weighted with the shares of total production applicable to East Germany, the result is therefore a decline in total gross value added that is about half a percentage point below the actual decline. In addition, the hard-hit automotive industry plays a smaller role in the East than in West Germany. Furthermore, private incomes are likely to have developed more favourably. While gross wages and salaries fell by 1.1% in West Germany, they increased by 1% in the East. One reason for this is that the volume of work had to be cut back less. Moreover, while wages are still lower in East Germany, they trend to grow a bit faster than in the West. Finally, the pension adjustment is 0.7 percentage points higher each year than in the West until the East's pension value will be fully aligned with that of the West.

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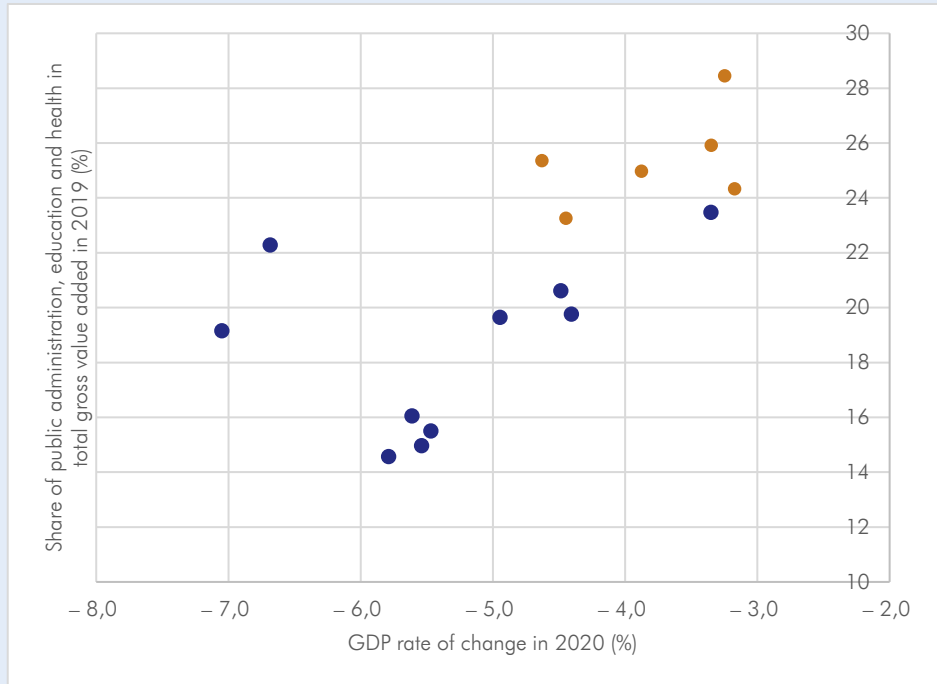
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### Figure

Rate of change in gross domestic product (GDP) in 2020 and share of public services in gross value added in the German Länder

(East German Länder in orange)



Source: Regional Accounts VGRdL (Volkswirtschaftliche Gesamtrechnungen der Länder).

Since production shrank less in East Germany, it is unlikely to expand as strongly as in the West when the shutdowns will gradually be lifted later this year. Moreover, most of the firms that are currently benefiting from the strong global demand for industrial goods are situated in the West. At 3%, growth in East Germany is expected to be lower in 2021 than in Germany as a whole (3.7%). A growth rate of 3% is forecasted for 2022 as well. The unemployment rate in East Germany as defined by the Federal Employment Agency falls from 7.3% in 2020 to 7.1% in 2021, and is expected to be 6.5% in 2022.

### Joint Economic Forecast, spring 2021 report (in German):

*Joint Economic Forecast: [Pandemie verzögert Aufschwung – Demografie bremst Wachstum](#). April 2021. Essen 2021.*

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