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Economy in East Germany will not suffer more from the war in Ukraine than in Germany as a whole

Implications of the Joint Economic Forecast Spring 2022 and new data for the East German economy

The recovery of the East German economy, like that of Germany as a whole, will weaken considerably due to Russia's war in Ukraine. However, the economic slump and recovery were not as pronounced as in West Germany. In 2021, East German output grew by 2.3%, less than in Germany as a whole (2.9%). According to the Halle Institute for Economic Research (IWH), GDP growth in East Germany is also likely to be lower than in Germany as a whole in 2022 (2.1% in East Germany vs. 2.7% in Germany) and 2023 (2.5% vs. 3.1%).

In its [Spring Report](#), the Joint Economic Forecast Project Group states that the recovery of the German economy will weaken considerably due to the Russia's attack on Ukraine. In principle, this also applies to the East German economy. However, the recession and the recovery were not as pronounced as in West Germany. "This is because public service providers, which are less affected by economic fluctuations than the private sector, have a particularly large weight in the east. In 2021, consequently, East German output grew by 2.3%, 0.6 percentage points less than in Germany as a whole," says Oliver Holtemöller, Head of the Department Macroeconomics and Vice President at the Halle Institute for Economic Research (IWH). The marked decline in construction output of 2.3% (Germany as a whole: -0.5%) is striking. It was particularly strong in Berlin, at -3.5%, after it had already fallen slightly in 2020. However, this does not reflect a crisis in Berlin's economy as a whole, which expanded by 3.3%, much faster than in other East German states.

In 2022 and 2023, East German output is likely to expand at 2.1% and 2.5% respectively, by roughly half a percentage point slower than in Germany as a whole. The war in Ukraine will hit the East German economy about as hard as Germany as a whole. It is noteworthy that the share of exports from East Germany to Russia, Belarus and Ukraine in all East German exports is, with 2.2%, about as high as the corresponding share from Germany as a whole.

There is, however, the risk of a halt in Russian supplies of oil and natural gas, which cover a large part of East German demand. If this risk materialised, a nationwide management of natural gas would have set in because, unlike oil, Russian gas cannot be replaced by other suppliers in the short term. In this case, the institutes forecast German GDP growth of 1.9% in 2022 and a decline of 2.2% in 2023. For East Germany, rates of 1.2% in 2022 and -1.5% in 2023 were to be expected. "The recession would be flatter in the east because the heavily affected manufacturing sector has a

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Press contact
Stefanie Müller-Dreißigacker
Tel +49 345 7753 720
presse@iwh-halle.de

Scientific contact
Oliver Holtemöller
Tel +49 345 7753 800
oliver.holtemoeller@iwh-halle.de

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Halle Institute for Economic Research (IWH) – Member of the Leibniz Association

Tel +49 345 7753 60
Fax +49 345 7753 820

Kleine Maerkerstrasse 8
D-06108 Halle (Saale)
Germany

P.O. Box 11 03 61
D-06017 Halle (Saale)
Germany

www.iwh-halle.de

lower weight than in the west," says Oliver Holtemöller. In addition, the share of the eight most energy-intensive industries in the total manufacturing sector in East Germany, measured by the sum of wages paid, is, with about 50%, significantly lower than in West Germany (about 60%).¹

The unemployment rate as defined by the Federal Employment Agency will fall from 7.1% in the previous year to 6.4% in 2022 if there is no gas freeze. The decline will come to a halt in 2023 due to this year's sharp increase in the minimum wage. In the event of a gas freeze, the rate is 6.5% this year, rising to 7.1% in 2023.

Joint Economic Forecast, spring 2022 report (in German):

Joint Economic Forecast: [Von der Pandemie zur Energiekrise – Wirtschaft und Politik im Dauerstress](#). April 2022. Kiel 2022.

Scientific contact

Professor Dr Oliver Holtemöller
Tel +49 345 7753 800
oliver.holtemoeller@iwh-halle.de

Press contact

Stefanie Müller-Dreißigacker
Tel +49 345 7753 720
presse@iwh-halle.de



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¹ The industries are listed in: Projektgruppe Gemeinschaftsdiagnose: [Ein alternatives Szenario: EU ohne Energierohstoffe aus Russland – Methodenbeschreibung](#). Materialien, No. 1, 2022, Table 2 (in German).