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Halle (Saale), 5 April 2023

East German economy has come through energy crisis well so far

Implications of the Joint Economic Forecast Spring 2023 and new data for the East German economy

In 2022, the East German economy expanded by 3.0%, significantly stronger than the economy in West Germany (1.5%). The background is a more robust development of labour and retirement incomes. For 2023, the Halle Institute for Economic Research (IWH) forecasts a higher GDP growth rate of 1% in East Germany than in Germany as a whole (0.3%). The unemployment rate is expected to stagnate, with 6.8% in 2023 and 6.7% in the following year.

In its [spring report](#), the Joint Economic Forecast states that the economic setback for the German economy in winter 2022/2023 is likely to have been less severe than feared in autumn. This is because the supply-side disruptions, especially the danger of an acute supply shortage of natural gas, have eased. Overall, the East German economy has come through last year's energy crisis quite well: According to recent official data, economic output expanded by 3.0%, 1.5 percentage points more than in West Germany (1.5%). Value added in the East German manufacturing sector increased by 1.5%, with very high growth of 13.4% in Brandenburg, that is probably mainly due to the start of car production at the Tesla plant in Grünheide. In East Germany excluding Brandenburg, manufacturing merely stagnated, as in Germany as a whole. Construction output declined by 3.5% in the east, somewhat more than in the rest of the country. In contrast, value added in the important service sector of trade, transport, hotels and restaurants, information and communication (economic sectors G to J) increased by 4.4% in the east excluding Berlin and by 9.2% in the German capital, much more than in West Germany (3.5%). "The background, apart from catch-up effects after the end of the pandemic, is likely to be a robust development of households' disposable income," says Oliver Holtemöller, Head of the Department Macroeconomics and Vice President at the Halle Institute for Economic Research (IWH). Since the minimum wage was raised to 12 euros per hour in October 2022, it is up by more than a quarter relative to 2021. This is more significant for East Germany than for the west because of the higher proportion of minimum wage recipients, and it is one reason why East German gross wages and salaries per employee have risen more significantly (6.4%) than in Germany as a whole (4.7%). In East Germany, real (consumer price adjusted) gross wages and salaries per employee were 12½% higher in 2022 than in 2015, but they were only about 4% higher in Germany as a whole. Despite the higher wage costs and a less favourable demographic development, employment is expanding significantly in the east as well as in the west.

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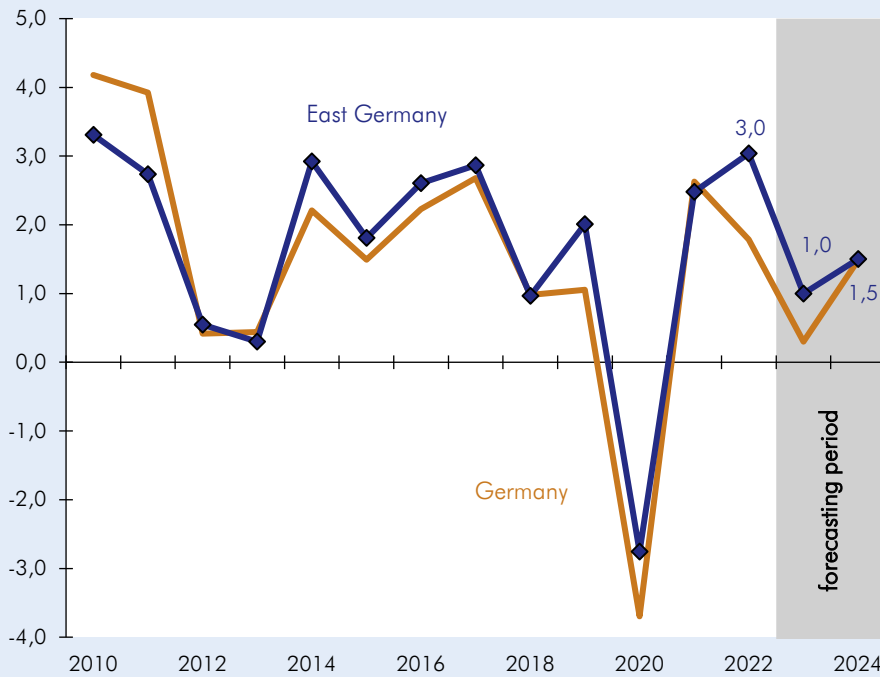
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Figure

Real gross domestic product in East Germany
Change from previous year in %



Sources: Working Group "Regional Accounts" (Arbeitskreis Volkswirtschaftliche Gesamtrechnungen der Länder), Joint Economic Forecast Spring 2023,

"In 2023, incomes in East Germany are also likely to expand more strongly than in the west," Holtemöller says. "This is because in the summer, the statutory pension will increase by 5.9% and thus by 1.5 percentage points more than in the West." The alignment of the pension value between east and west will then be achieved, and in the future, pension adjustments will be uniform throughout the country. For the first half of 2023, the Joint Economic Forecast sees a modest increase in German GDP; in the following quarters, growth is likely to be somewhat higher due to easing supply bottlenecks and lighter burdens from energy prices. This should also apply to East Germany. Due to the stronger development of private incomes (though at a lower level), East German output is likely to expand at a slightly higher rate of 1.0% in 2023 than in Germany as a whole (0.3%, see figure). For 2024, the expansion rates will probably converge (1.5%). The East German unemployment rate as defined by the Federal Employment Agency will remain roughly constant at 6.8% in 2023 and 6.7% in 2024, after 6.7% in 2022.

Joint Economic Forecast, Spring 2023 Report (in German):

Joint Economic Forecast: Inflation im Kern hoch – Angebotskräfte jetzt stärken.
München, April 2023.

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