

Press Release 25/2023

Halle (Saale), 28 September 2023

The downturn in 2023 is milder in East Germany than in Germany as a whole

Implications of the Joint Economic Forecast Autumn 2023 and of Länder data from recent publications of the Statistical Offices

The German economy has been in a downturn for more than a year. In East Germany, however, the economy has been somewhat stronger in the past four quarters: According to the Halle Institute for Economic Research (IWH), East German gross domestic product (GDP) is expected to increase by 0.5% in 2023, while production in Germany as a whole will fall by 0.6%. Next year, expansion rates of 1.3% are forecast in both the east and the west. For 2025, East German gross domestic product is expected to grow by 1.2%, which is slightly slower than in Germany as a whole (1.5%).

In its [autumn report](#), the Joint Economic Forecast states that the German economy has been in a downturn for more than a year and will not gain strength before the end of 2023. In East Germany, however, economic activity has been somewhat stronger over the past four quarters: According to the Arbeitskreis "Volkswirtschaftliche Gesamtrechnungen der Länder", East German GDP was 0.2% higher in the first half of 2023 than a year earlier, while it was 0.3% lower for Germany as a whole. Regional differences in manufacturing activity were strong: Gross domestic product in Saxony-Anhalt fell by 3.2%, most likely because the chemical industry in this federal state suffered from extreme increases in energy prices. By contrast, Brandenburg's gross domestic product was 6% higher than a year earlier. The key factor here was that the new large electric car factory in Grünheide step by step expanded production that started in March 2022. "Sales and orders received in the manufacturing sector in the first half of 2023 also point to somewhat higher momentum in East Germany", says Oliver Holtemöller, Head of the Department Macroeconomics and Vice President at the IWH. "In addition, disposable incomes in East Germany have been growing more strongly than those in the west for several years". East German real gross wages and salaries in 2022 were 19.5% above their 2015 level, while those in West Germany were only 16.1% higher. This year, incomes will be supported by a large increase in the minimum wage (to twelve euros per hour from October 2022), which is more frequently paid in the east. In addition, the statutory pension will increase by 5.9%, 1.5 percentage points more than in the west.

"In the coming years, however, East Germany's GDP is unlikely to expand at a faster rate than that of Germany as a whole, since the number of people in employment will fall for demographic reasons", says Holtemöller. Employment subject to social security contributions in East Germany has hardly increased at all recently, in June

Press embargo:
28 September 2023, 11 a.m. CEST

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Keywords
business cycle, convergence, East Germany, East-West comparison, demography, forecast, energy prices, Germany, labour market, manufacturing sector, productivity, statutory pension, wages

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by 0.3% compared with the same month a year earlier (Germany as a whole: 0.7%). In addition, there will be no higher pension increases in the east from 2024 onwards.



Overall, East German GDP is expected to grow by 0.5% in 2023, while output in Germany as a whole will fall by 0.6% (see figure). Next year, both expansion rates are likely to be 1.3%, and for 2025, East German output is forecast to grow by 1.2%, somewhat slower than in Germany as a whole (1.5%). This means that per capita GDP in East Germany will remain at around 80% of the level in West Germany. The East German unemployment rate as defined by the Federal Employment Agency will be 7.1% in 2022 and 7.0% next year, falling to 6.7% in 2024.

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

Joint Economic Forecast: [Kaufkraft kehrt zurück – Politische Unsicherheit hoch](#). Halle (Saale), September 2023.

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