

## ifo Economic Forecast for Eastern Germany and Saxony: Development of the Economy Split

Dresden, July 5, 2023 – The economy in eastern Germany and Saxony, like that in Germany as a whole, entered a weak phase at the turn of 2022–2023. Eastern Germany’s economic output in 2023 is likely to be 0.4 percent below the previous year’s level; in Saxony, the ifo Institute expects GDP to contract by 0.2 percent (Germany: –0.4 percent). This is despite a trend toward recovery over the further course of the year. Next year, economic output in those regions will grow again slightly by 1.3 and 1.2 percent, respectively (Germany: +1.5 percent).

“At the moment, we’re seeing a split in the development of the economy,” says economic expert Joachim Ragnitz from the ifo Institute’s Dresden Branch. “Manufacturing had a strong start to 2023. This is due in part to a ramp-up in production of electric vehicles and other electronic components, such as batteries, in some eastern German states.” By contrast, service providers had to contend with the dampening effect of persistently high inflation. This effect is greater in eastern Germany and Saxony, where incomes are lower, than in the rest of Germany. Construction output will also shrink further in view of higher interest rates. Overall, economic output is expected to decline in 2023, as manufacturers will not be able to compensate for the weakness of service providers and construction companies.

“Prices should then gradually stabilize next year,” Ragnitz says, “while wages are also set to rise significantly. This will benefit consumer-related service providers, who will nevertheless likely expand less strongly in eastern Germany and Saxony than in Germany as a whole, as unfavorable demographic trends increasingly make themselves felt.” Overall, however, eastern Germany and Saxony should return to a growth trajectory next year.

The labor market is expected to grow this year. One factor in this is the growing participation in the labor force of people fleeing Ukraine. The number of people in employment in eastern Germany is expected to grow by 0.3 percent (Saxony: +0.5 percent). Next year, however, demographic factors mean the labor market is unlikely to grow at all (Saxony: +0.1 percent).



ifo Economic Forecast for Eastern Germany and Saxony – Key Figures

Percent change over previous year

	Eastern Germany		Saxony	
	2023	2024	2023	2024
Gross domestic product (price-adjusted)	-0.4	1.3	-0.2	1.2
Gross value added (price-adjusted)				
Manufacturing, excluding construction	1.2	2.4	2.0	2.7
Construction industry	-1.9	-3.2	-2.3	-3.9
Trade, hospitality, transportation; information and communication	-0.6	1.9	-0.7	1.5
Financial, insurance, and business activities; real estate activities	0.6	1.5	0.7	1.5
Providers of public and other services; education and health	1.4	1.5	1.6	1.4
People in employment	0.3	0.0	0.5	0.1

Source: ifo Institute, July 2023 forecast.

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