

Berlin *Konjunktur*

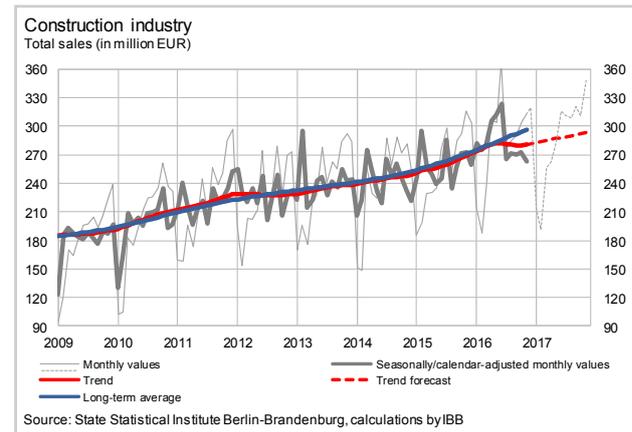
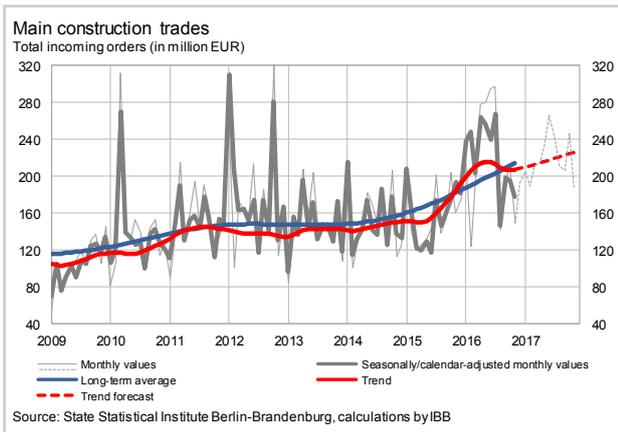
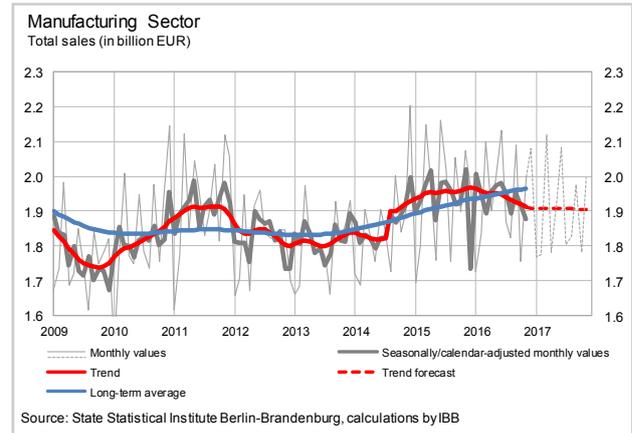
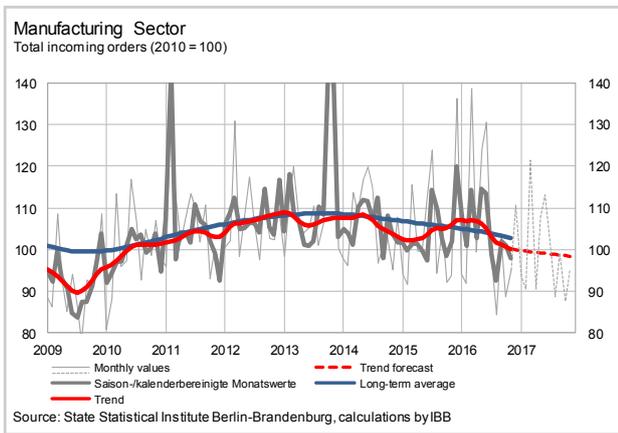
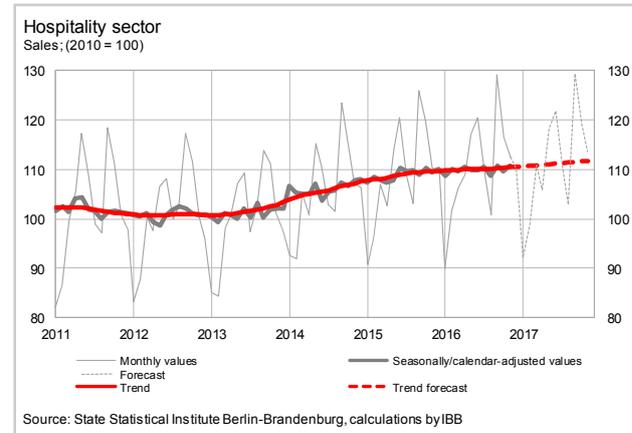
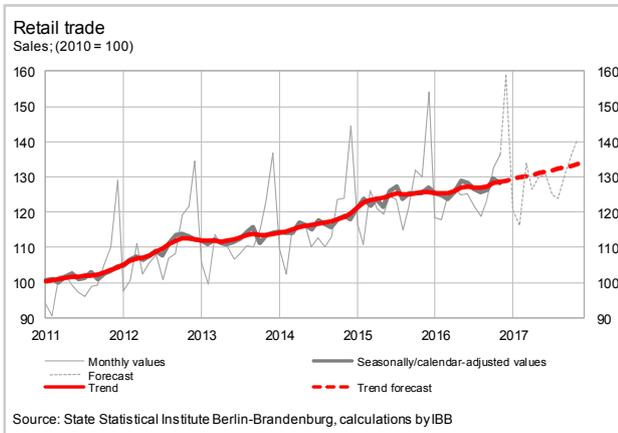
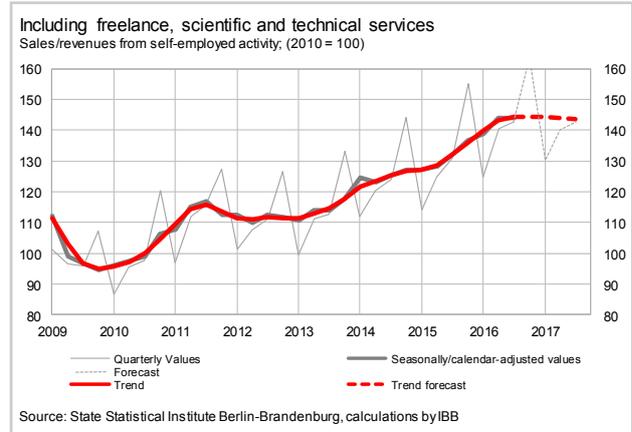
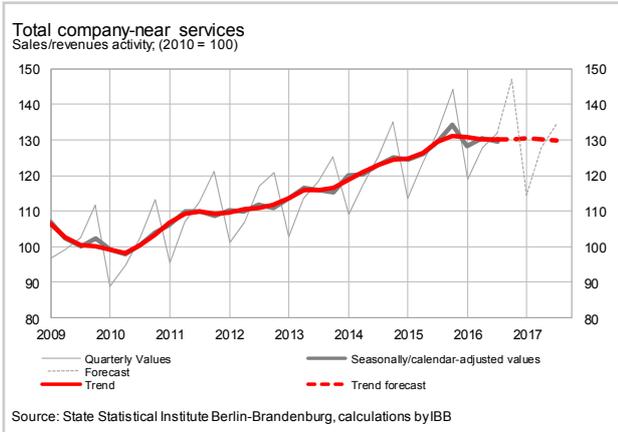
Stable economy in turbulent times

February 2017

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Seasonally and calendar-adjusted economic data/trends



Summary

Stable economy

As we move into 2017, the facts and figures of the Statistical Office for Berlin-Brandenburg only contain three quarters of the past year. But the data material available and the latest economic polls already provide crucial information: Berlin's gross domestic product in 2016 is likely to have risen by 3.0%, once again recording above-average growth (Germany: +1.9%). At the beginning of 2017, first-quarter growth of 2.2% got the new year got off to a very good start compared to the same quarter of the previous year. In the midst of growing uncertainty regarding the global economy, Berlin's economy could slow down somewhat over the course of 2017 (second quarter 2017: +1.9%). All in all, however, growth momentum in construction and company-near services will be strong enough to achieve economic growth of 2.2% for 2017 as a whole (Germany: 1.0%). This is also indicated by the optimistic estimates made by Berlin-based companies in the latest economic surveys conducted by DIW, Berlin's Chamber of Industry and Commerce (IHK) and the Berlin Chamber of Skilled Crafts.

Developments on Berlin's labour market continue to be extremely dynamic. According to Germany's Federal Employment Agency, only 170,874 people were registered as unemployed in November 2016. Almost 24,000 of them have third-level education and hence good prospects on the labour market. The share of academics among the unemployed totals 14% in Berlin and is the highest rate of all the German federal states. On the other hand, 85,000 unemployed people in Berlin have no qualifications (share: 49%, Germany: 46%). That being said, however, Berlin's labour market now offers hope of employment for these people too. This can be seen by the currently high demand for workers, especially in lower-paid areas, such as transport, logistics and security (4,861 job vacancies), as well as the retail sector (3,029). On the whole, the unemployment rate in November totalled 9.2% and was hence 3.5 percentage points above the national average. Jobs have been created, especially in the real-estate sector and in freelance and scientific services. In an annual comparison, employment in these sectors rose by 7,493 to 161,000 people in jobs (+4.9%). In Berlin's growth sector of information and communications with its high wages, the number of jobs in September alone rose by 6,015 to 83,900 jobs (+7.7%). A good 500 fewer jobs (-1.5%) were recorded for financial and insurance services. Companies in these sectors that employ 33,900 people are under enormous margin pressure due to persistently low interest rates.

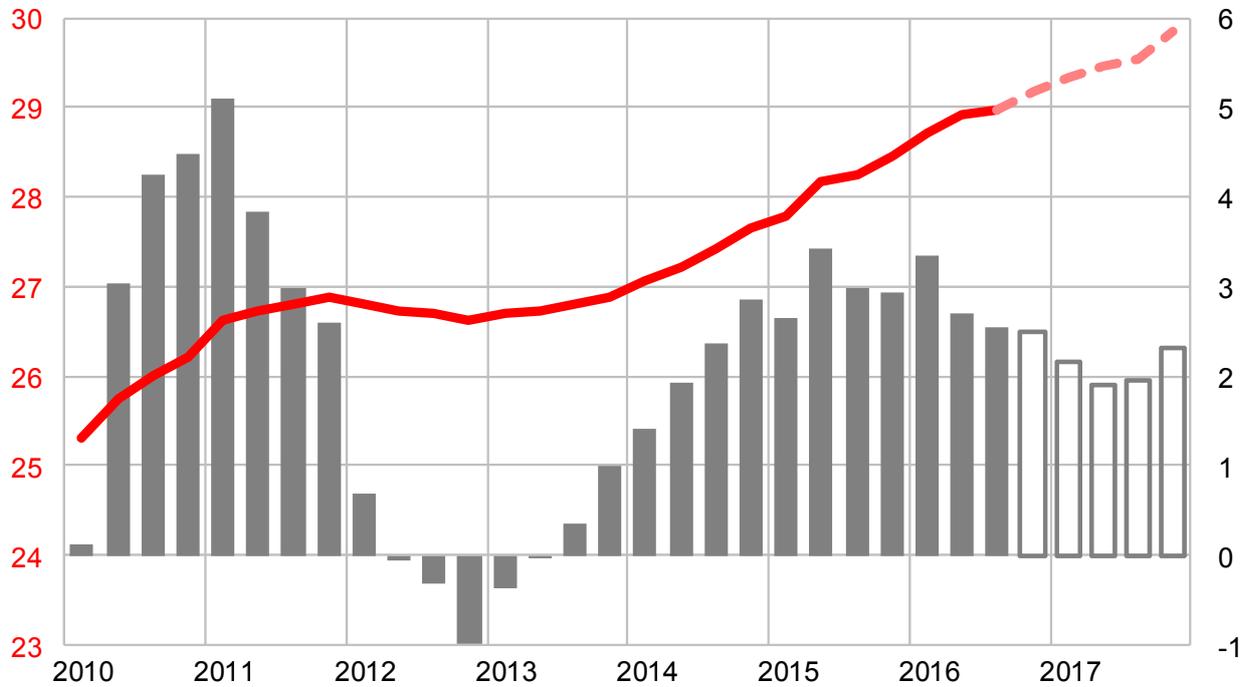
Sales for company-near services no longer increased as steeply in the first three quarters of 2016, only reaching a rate of 2.6% (Germany: +3.4%). The strong fall in sales in the transport sector (-14.4%) over the course of 2016 had a particularly adverse impact. The reason for this is that sales recorded by Berlin's sector were down by 52.0%. The information and communications sector that is so important for Berlin also lost some of its momentum (+5.3% following +6.1%). The sub-sector of film and entertainment where sales were down by 6.5% had a restraining effect here. On the other hand, the core of the digital economy was dynamic, recording growth of more than 11%. That being said, service companies stepped up their hiring activities significantly in the first three quarters (+6.8%). In some sectors, people are being hired as a precautionary measure because people with good qualifications are becoming increasingly more difficult to find. Beginning in the second quarter of 2017, sales are also likely to climb and the aviation sector will then no longer put a strain on the overall result.

In contrast to this, the order books of Berlin's construction companies are full to the brim in the third quarter of 2016 (EUR 1.2bn). Calculated on the basis of the first three quarters, this corresponds to an increase of 38.6% compared to the same period of the previous year. This marks the highest order level in 16 years. Back in 2000, Berlin had to prepare itself for its role as capital city. Today's task involves mastering a population increase of more than 200,000 in four years. Many Berlin-based construction companies are already working at maximum capacity and having to hire staff and increase their machinery. Almost 27,000 building permits for residential buildings and around 14,500 completions can be expected for 2016. In light of this, the required level of 20,000 apartments per year will not be reached for some time.

Despite the overall positive outlook, the list of uncertainties recently became longer, also for Berlin's economy. In addition to the crisis in the Eurozone, which was aggravated even further by the UK's Brexit decision and Italy's failed constitutional referendum, there are also concerns regarding the new direction in US politics following the election of the new president. At least Berlin's export sector could benefit from Trump's announced investment programme. All in all, positive growth potential will continue to prevail in Berlin in the months to come, leading to above-average growth of 2.2% in 2017.

GDP development in Berlin

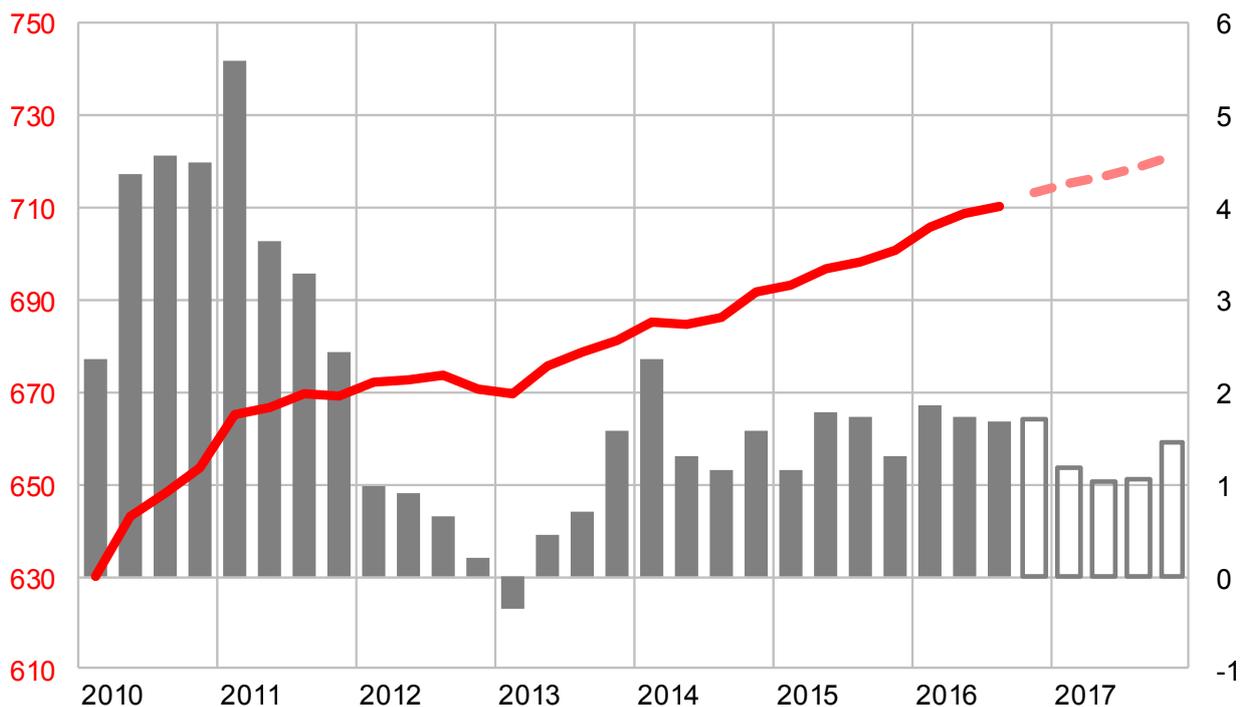
Billion EUR in 2010 prices (left scale); growth rates against the previous year in % (right scale)



Source: Statistical Offices of the Laender, calculations by IBB

GDP development in Germany

Billion EUR in 2010 prices (left scale); growth rates against the previous year in % (right scale)



Source: Destatis, calculations by IBB

Company-near services

Air traffic affected

In the period from January to September 2016, company-near services recorded sales growth of 2.6%. At the same time, sales in the transport sector declined steeply over the course of the year and are now 14.4% below the same period in 2015. The reason for this is that sales recorded by the aviation industry were down by 55.2%.

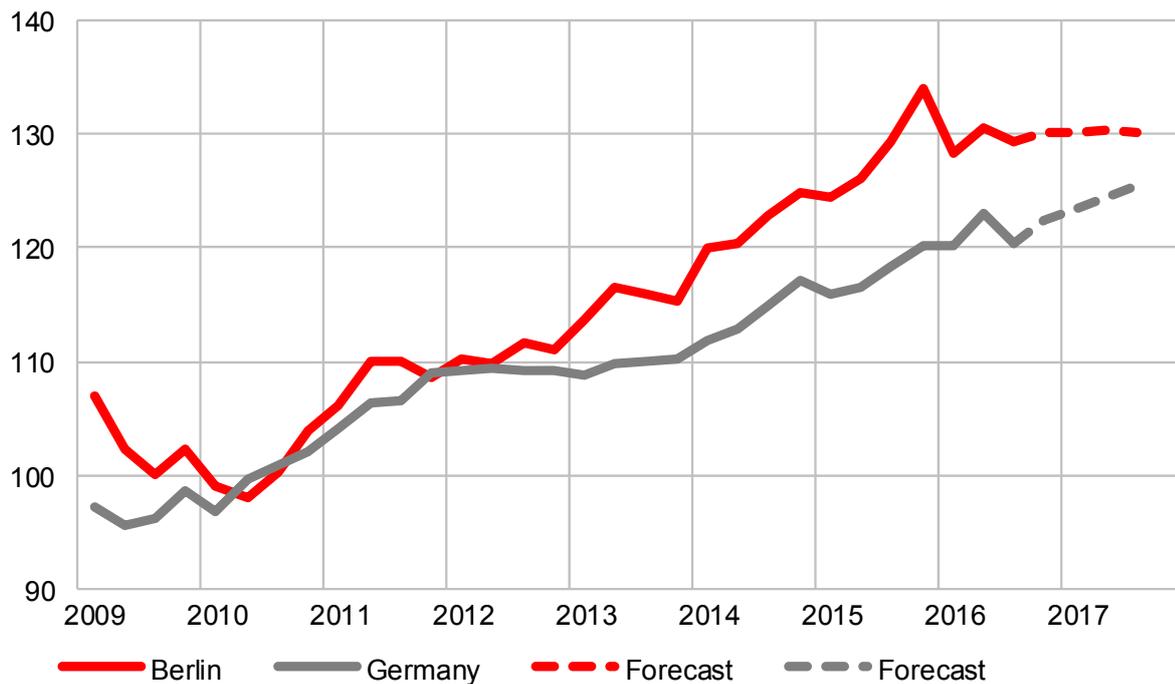
Besides the difficult situation for airlines based in Berlin, personnel and sales were, for statistical reasons, attributed to airport sites in other federal states. The information and communications sector that is so important for Berlin also lost some of its momentum (+5.3%). The sub-sector of film and entertainment, where sales were down by 6.5%, had a restraining effect here. Publishing houses in Berlin also recorded slight declines in sales (-0.8%). The core of the digital economy was the only sector to record dynamic growth of more than 11%. As a result of shelter and care for refugees, security services also rose steeply (+42.4%).

Hiring as a precautionary measure

The slight slowdown in sales growth in the third quarter is likely to be of a temporary nature only and will affect only a few sectors. After all, service companies have stepped up their hiring activities. In the first three quarters of the year, 6.7% more new employment contracts were signed. These increases were recorded, for instance, in the temping sector (+5.9%) and by security services (+20.9%). The number of jobs in information and communications has also risen significantly (+6.8%). This business sector that has generated momentum for Berlin in recent years will continue to be a strong driver for jobs in 2017, attracting highly skilled people from all over the world to Berlin. In the growth sector of information services, employment figures rose steeply (+8.5%). People are being hired in this sector as a precautionary measure because qualified employees for specific fields of IT are becoming increasingly more difficult to find. Beginning in the second quarter of 2017, sales are also likely to climb again. Due to the resultant base effect, the aviation sector will then no longer put a strain on the overall result.

Company-near services – sales development

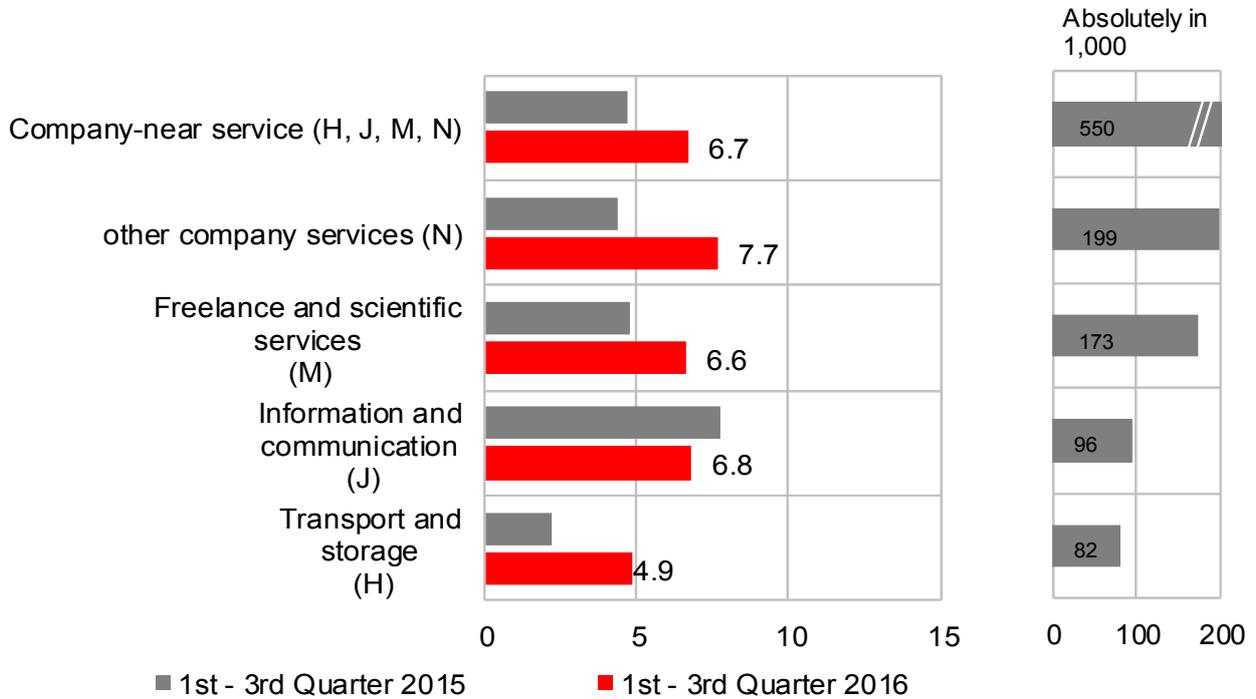
2010 = 100; seasonally/calendar-adjusted quarterly values



Source: State Statistical Institute Berlin-Brandenburg, Destatis, calculations by IBB

Company-near services – employment trends

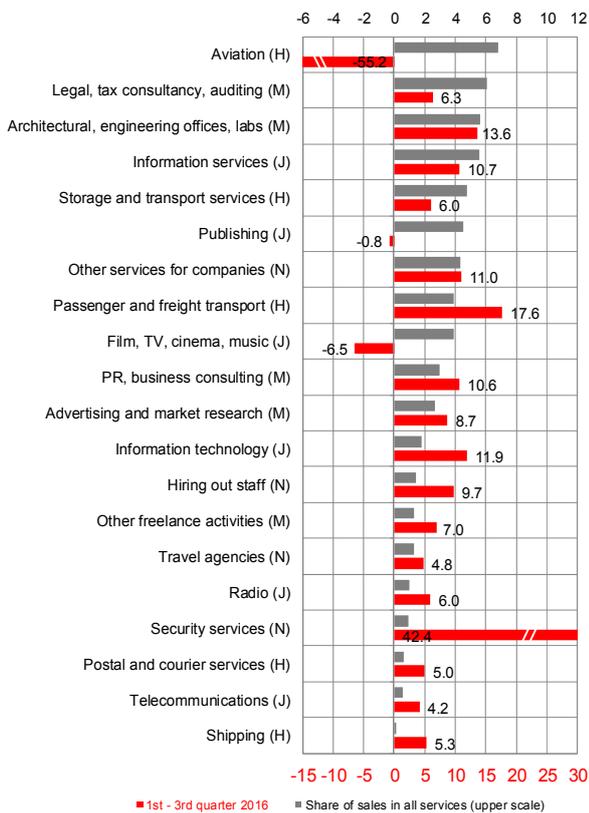
Change in % against the same period of the previous year



Source: State Statistical Institute Berlin-Brandenburg, calculations by IBB

Selected services sectors – sales trends

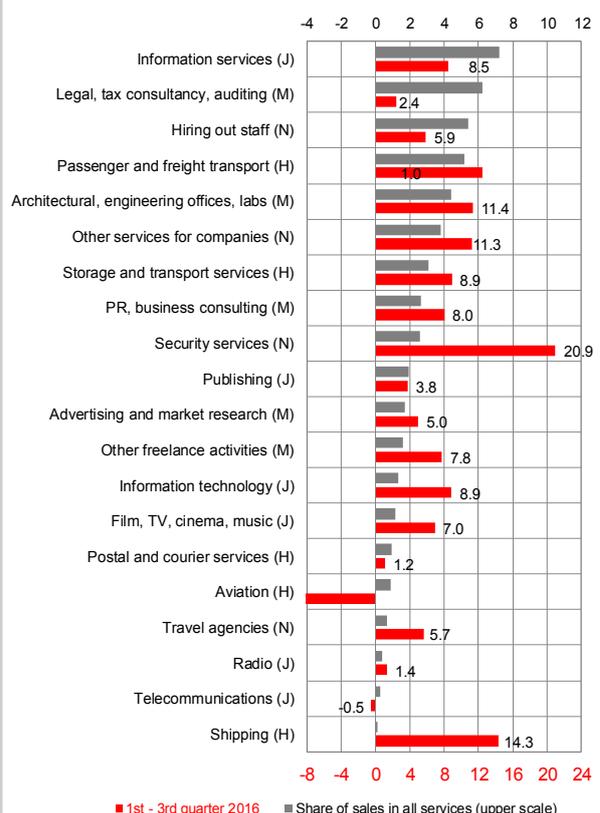
Change in % against the same period of the previous year; % share in sales



Source: State Statistical Institute Berlin-Brandenburg, calculations by IBB

Selected services sectors – employment trends

Change in % against the same period of the previous year; % share in sales



Source: State Statistical Institute Berlin-Brandenburg, calculations by IBB

Industry

Industrial sales: Sluggish trend

Over the course of 2016, industrial sales were sluggish as expected after overall order intake the previous year was down (-1.2%). In the first nine months of 2016, Berlin-based industrial companies with 50 or more employees recorded sales of EUR 17.4bn with domestic sales accounting for EUR 7.1bn (share: 40%) and foreign sales EUR 10.3bn (60%). Compared to the previous year, industrial sales rose by only 0.5%.

In the first nine months of 2016, producers of pharmaceutical products (share: 29.9% of industrial sales) recorded sales of EUR 5.4bn, already marking a rise of EUR 160m against the same period of the previous year (+3.1%). This trend is currently due to domestic sales, which were up by 6.1% and which are significantly fuelling growth (foreign sales: +2.3%). Increased sales were also recorded by the electrical equipment (+8.5%) and mechanical engineering (+11.2%) sectors. On the other hand, companies working in data processing (share: 9.0%) recorded declining sales from the beginning of the year (-6.5%).

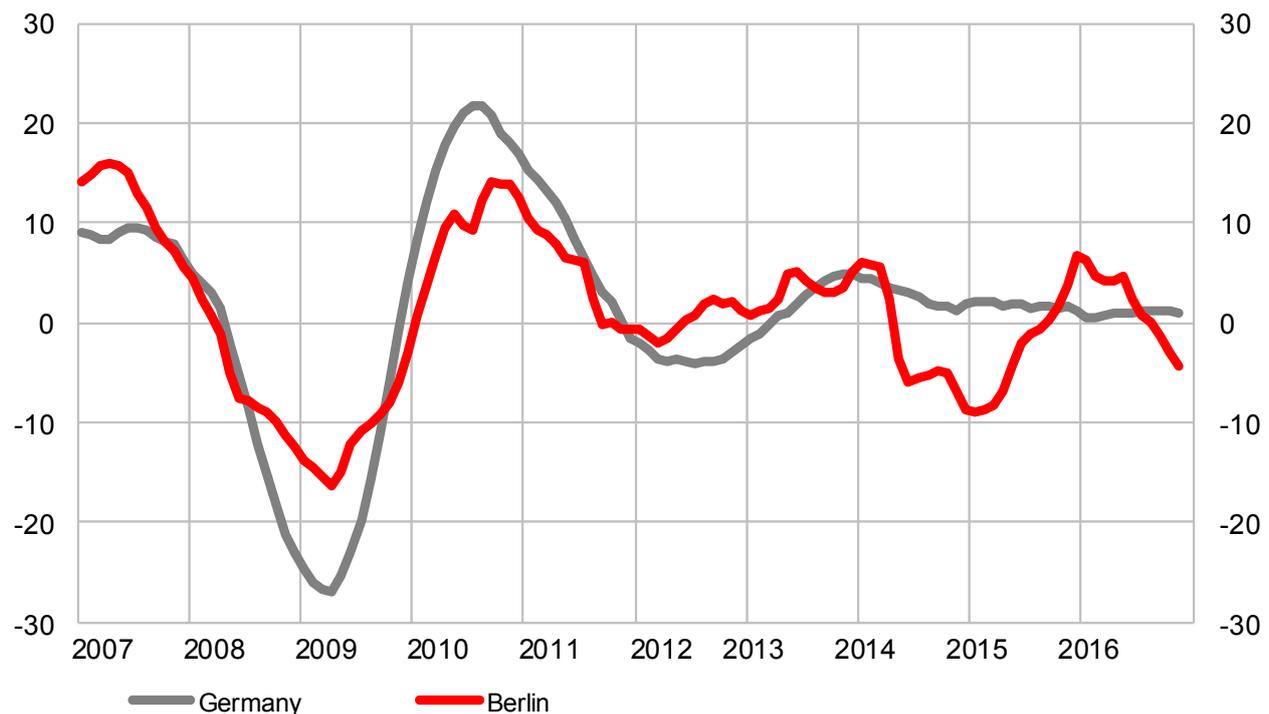
Industrial orders: Slowing down

Following a good start to the year, the order situation for industrial companies in Berlin lost some of its momentum in the second half of the year and now shows a downward trend. Although order intake in the first nine months was generally still positive, up by 3.4% against the same period of the previous year, this index has, however, now declined by 4% in the long-term average.

The pharmaceutical industry, which accounts for almost 30% of all industrial sales, is particularly important for Berlin's industrial sector. Although order intake by this sector was down 20.7% in 2015, the situation improved very rapidly once again in the first nine months of 2016 with order intake up by 6.1%. In the mechanical engineering sector, companies also recorded a rise in order intake (+5.7%). Metal products (-11%) and data processing devices (-4.0%), on the other hand, recorded far fewer orders than during the same period of the previous year. All in all, the trend for the industrial sector in 2017 can be expected to be modest.

Total incoming orders – industry

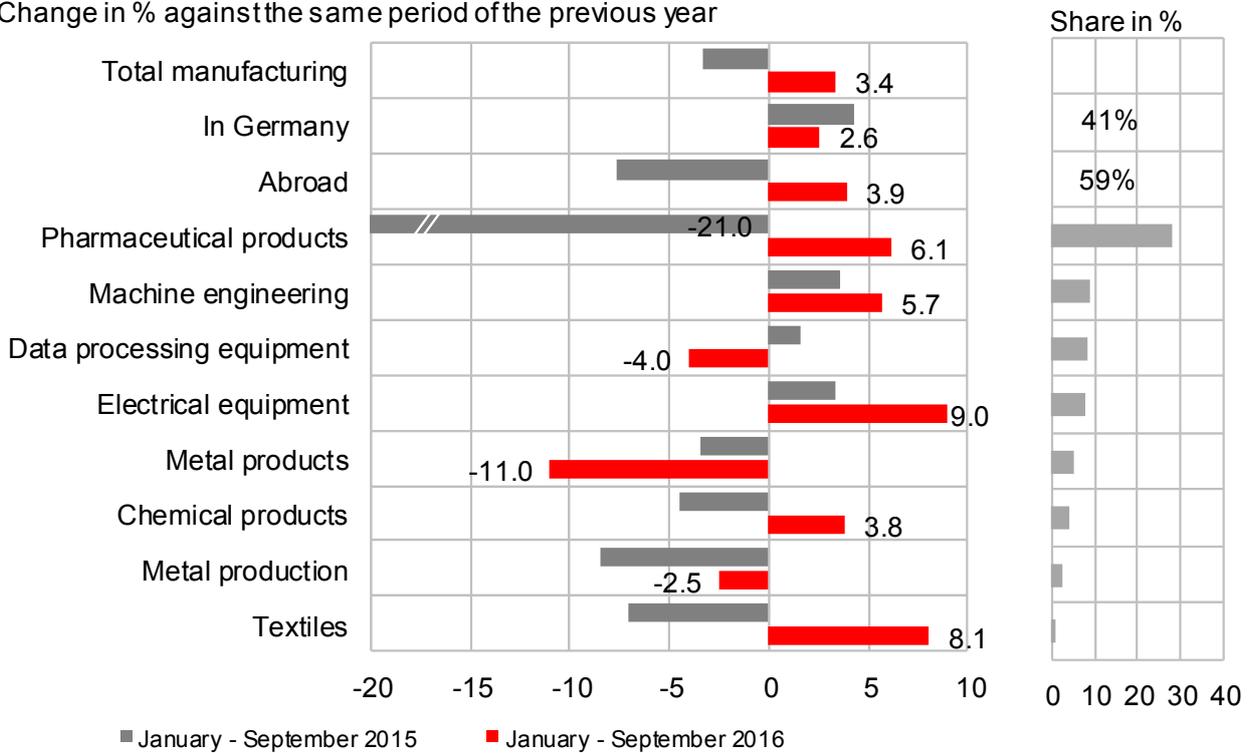
Moving 12-month average, change in % against the same month of the previous year



Source: State Statistical Institute Berlin-Brandenburg, calculations by IBB

Incoming orders – important sectors of industry

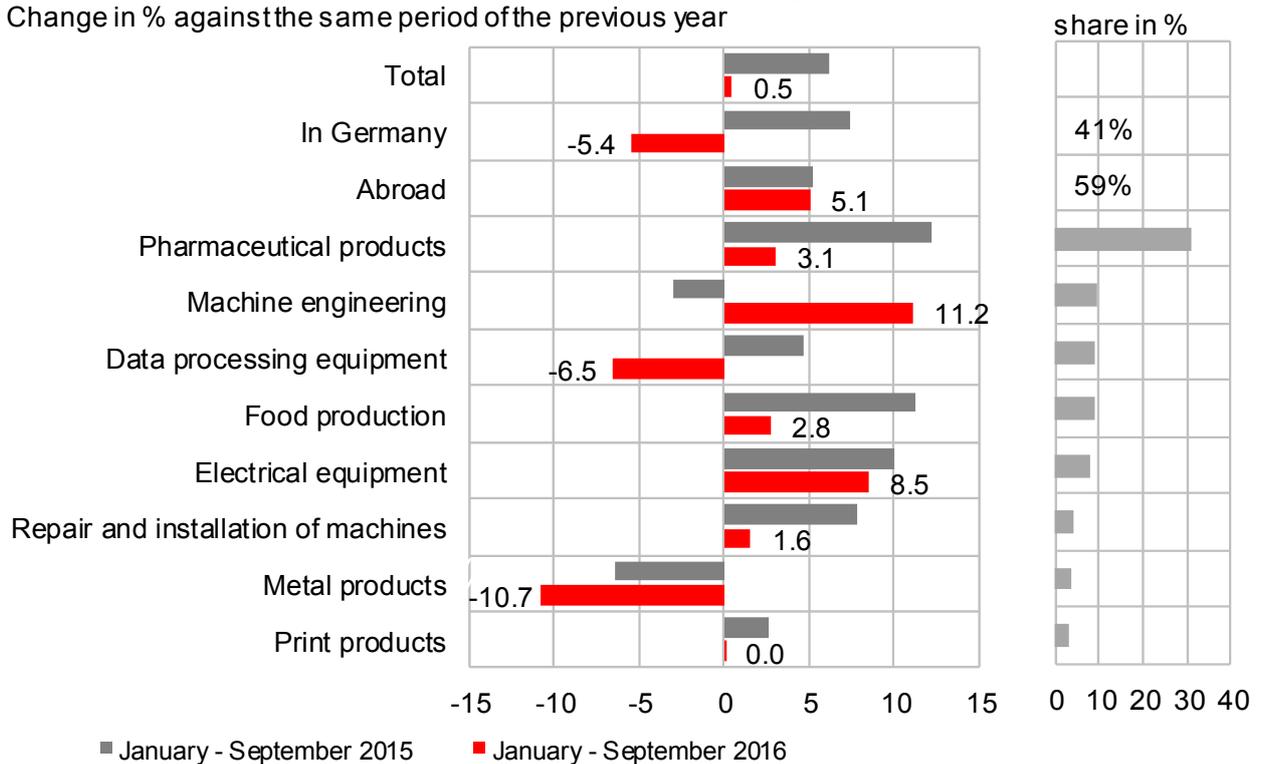
Change in % against the same period of the previous year



Source: State Statistical Institute Berlin-Brandenburg, calculations by IBB

Sales trends – most important sectors of industry

Change in % against the same period of the previous year



Source: State Statistical Institute Berlin-Brandenburg, calculations by IBB

Exports

Steep increase in exports

In the first nine months of 2016, Berlin exported goods worth EUR 11.5bn. Compared to the previous year, this corresponds to an increase of EUR 1.2bn (+11.5%) which is largely due to higher exports to Egypt (+EUR 428m), the US (+EUR 224m) and China (+EUR 192m).

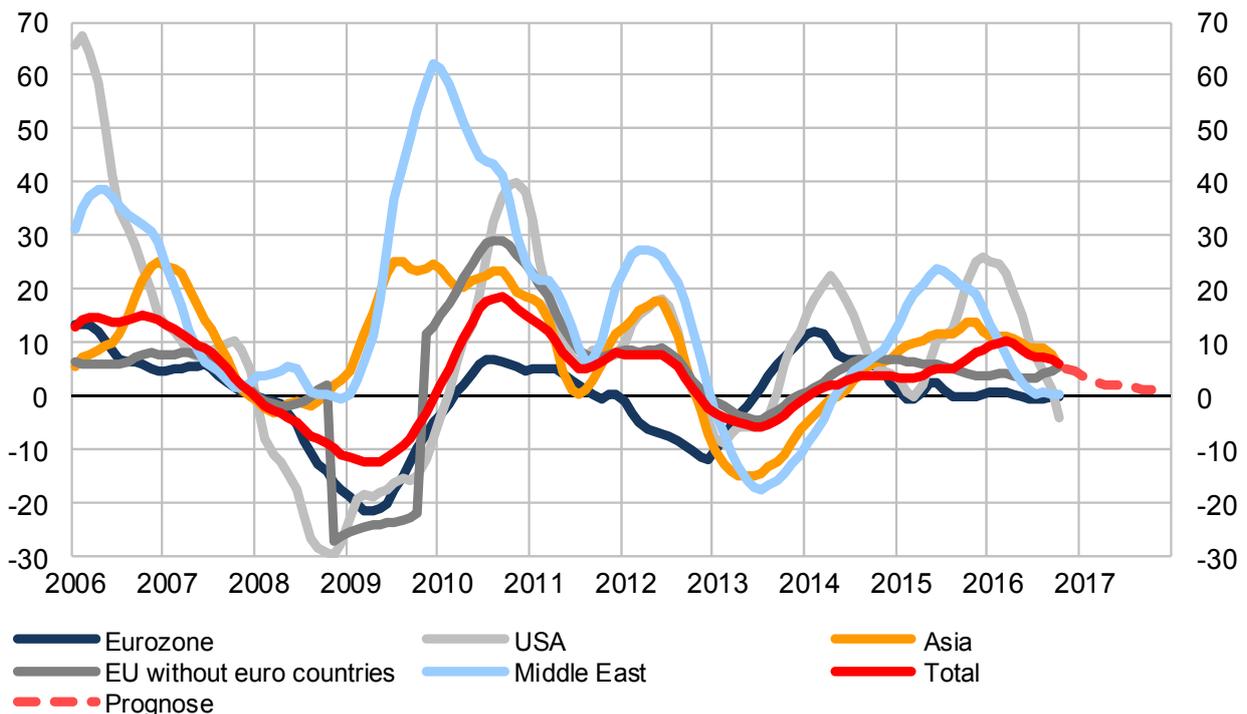
Exports to the US are essential since the US has been the most important export country for Berlin for some time now (share in all exports: 13%). The US economy is edging close to full employment and is set to record strong growth rates in 2017 (+2.5%). Supported by the low euro, exports from Berlin are popular in the US. Up until September, goods worth almost EUR 1.5bn (+18%) were exported there. These exports were primarily pharmaceutical products, motorcycles, as well as equipment to build electrical infrastructure. This is the sector that will benefit significantly from the designated president's announcements to invest more in infrastructure projects. In 2015, goods worth EUR 156m were already sold to the US for electricity grid expansion.

The steep increase in Berlin's exports is largely due to exports of power machines (+EUR 595m against the same period of the previous year) and motor vehicle parts (+EUR 346m). Power machine goods also include, for instance, gas turbines. Their exports to the US has tripled against the same period of the previous year reaching EUR 101m. In the first three quarters of the year, power machines worth EUR 78m were sold to South Korea. In the previous year, no goods from this category had been sold to South Korea.

That being said, however, expectations for exports still remain cautious. This was indicated by the latest economic survey conducted by Berlin's Chamber of Industry and Commerce (IHK) and the Berlin Chamber of Skilled Crafts. The survey recorded a decline in export expectations from 33 points at the beginning of the year to 15 points in autumn. Due to the weak euro, a strong economy in the US and more stable growth in the Eurozone (+1.3%), Berlin's export business can still be expected to grow by 5%.

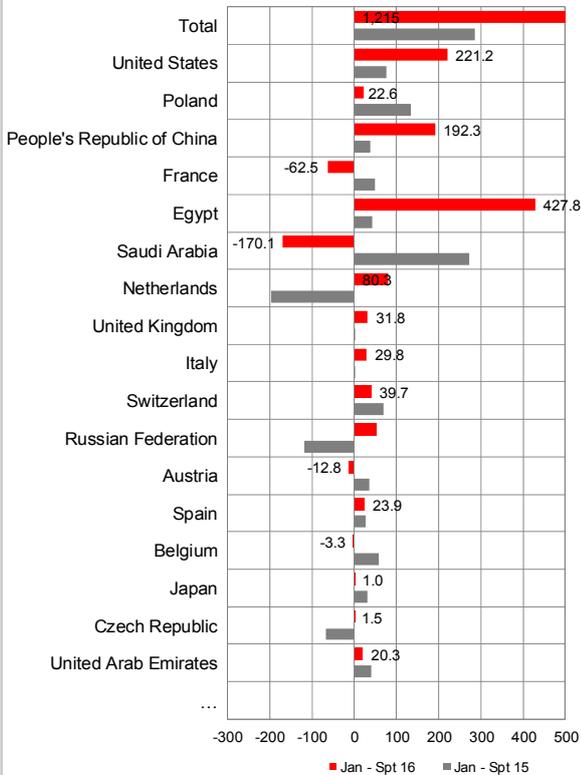
Exports

Monthly trend values, change in % against the previous year



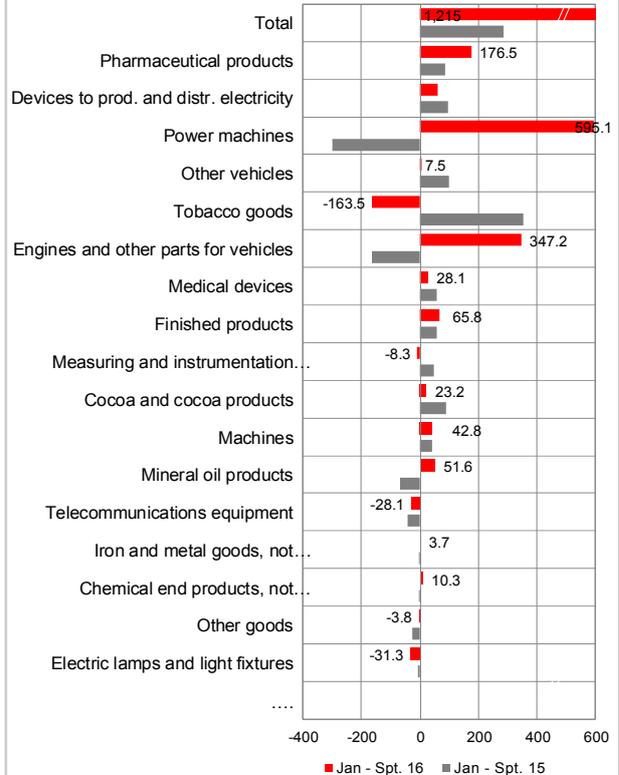
Source: Destatis, calculations by IBB

Exports: most important export countries
Change in million EUR against the previous year



Source: Federal Statistical Office; calculation by IBB

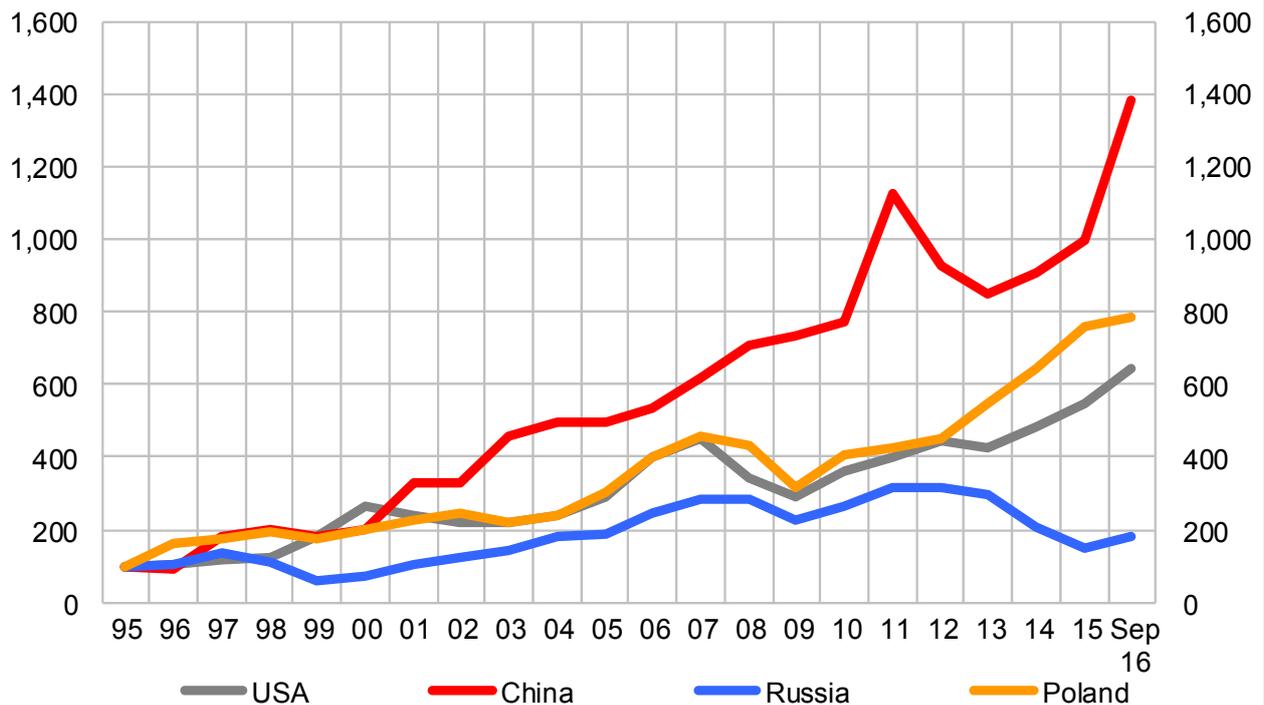
Exports: most important material groups
Change in million EUR against the previous year



Source: Federal Statistical Office; calculation by IBB

Exports to selected countries

1995 = 100



Source: State Statistical Institute Berlin-Brandenburg, calculations by IBB

Construction industry

Orders on hand: At capacity levels

The order books of Berlin's construction companies are full to the brim with orders worth EUR 1.2bn in the third quarter of 2016. Calculated on the basis of the first three quarters, this corresponds to an increase of 38.6% compared to the same period of the previous year. This marks the highest order level in 16 years. Back then at the beginning of 2000, Berlin had to prepare itself for its role as capital city. Today's task involves mastering a population increase of more than 200,000 in four years. That's why housing accounts for almost half of the orders placed, i.e. EUR 546m. Many Berlin-based construction companies are working at maximum capacity and having to hire staff and increase their machinery. This is confirmed by a recent economic survey conducted by Berlin's Chamber of Industry and Commerce (IHK) and the Berlin Chamber of Skilled Crafts. 72 percent of the construction companies surveyed indicated their intention to invest.

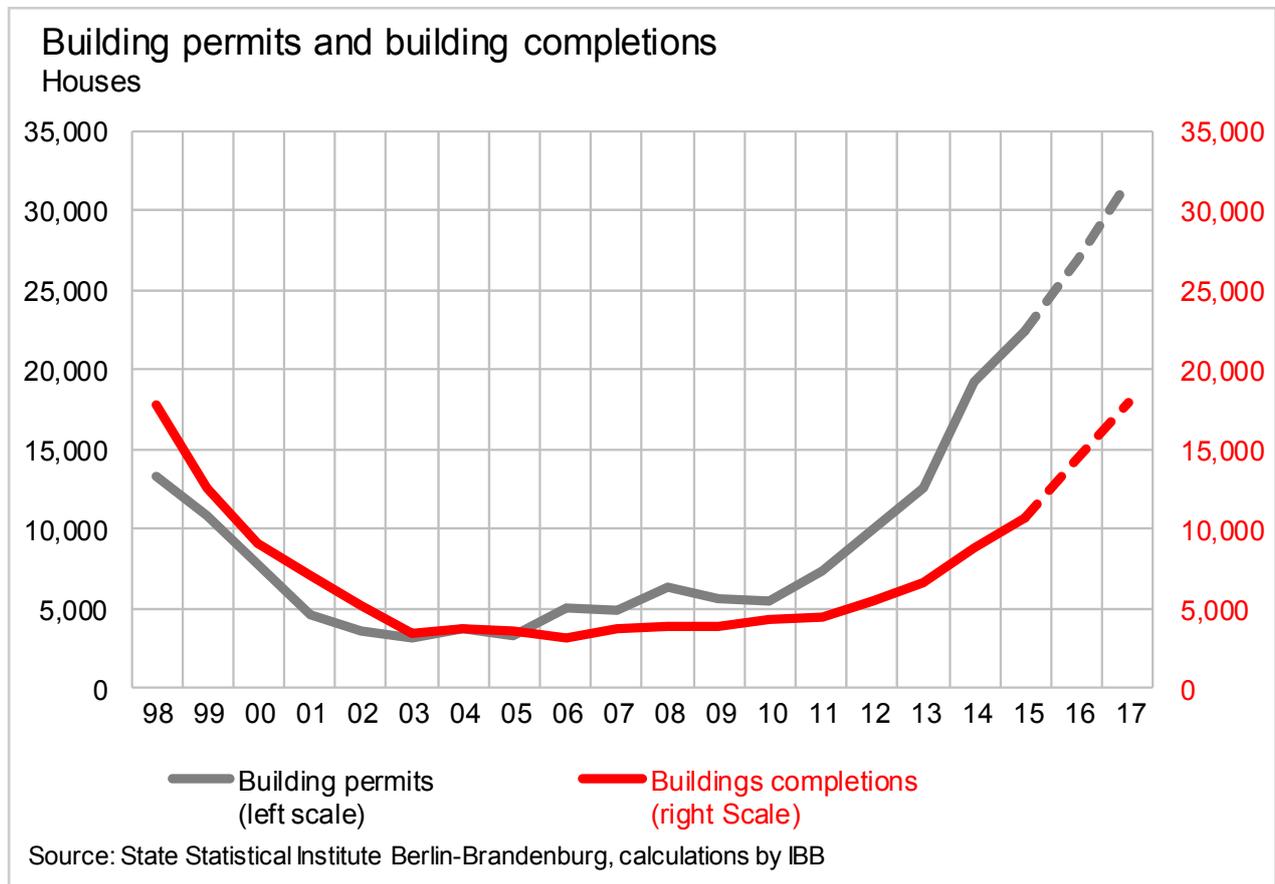
There is enormous demand for construction and no end in sight because Berlin's population has continued to grow for the past five years. Order intake for the main construction trades was up by 50.4% to EUR 2.0bn in the first nine months of the year.

Housing construction accounts for EUR 985m of this figure. Monthly order intake currently totals EUR 220m and is hence around 30% higher than the average level of orders in 2015 (EUR 173m per month).

Sales: Expansion course continues

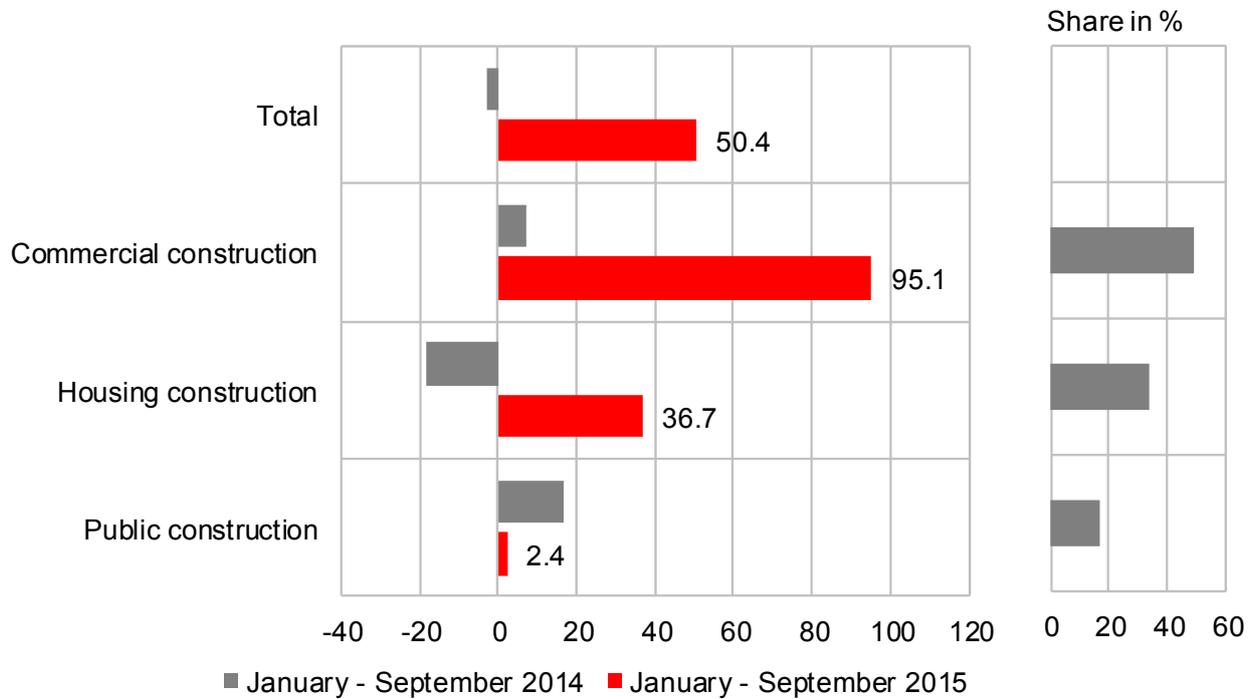
Thanks to this, sales for the main construction trades rose in the first nine months of 2016 by 13.0% to EUR 2.5bn. Housing construction is once again the driver behind this trend. In this sub-sector, sales rose by EUR 286m (+20%) to EUR 1.1bn.

Following a sluggish first few months, building permits picked up again in August. By September, 16,951 housing construction measures were approved (+14%). New housing construction, in particular, increased significantly by 22.6%. Almost 27,000 building permits for residential buildings and around 14,500 construction project completions can be expected for 2016. The required level of 20,000 new apartments will not be reached until 2017.



Incoming orders - Main construction trades

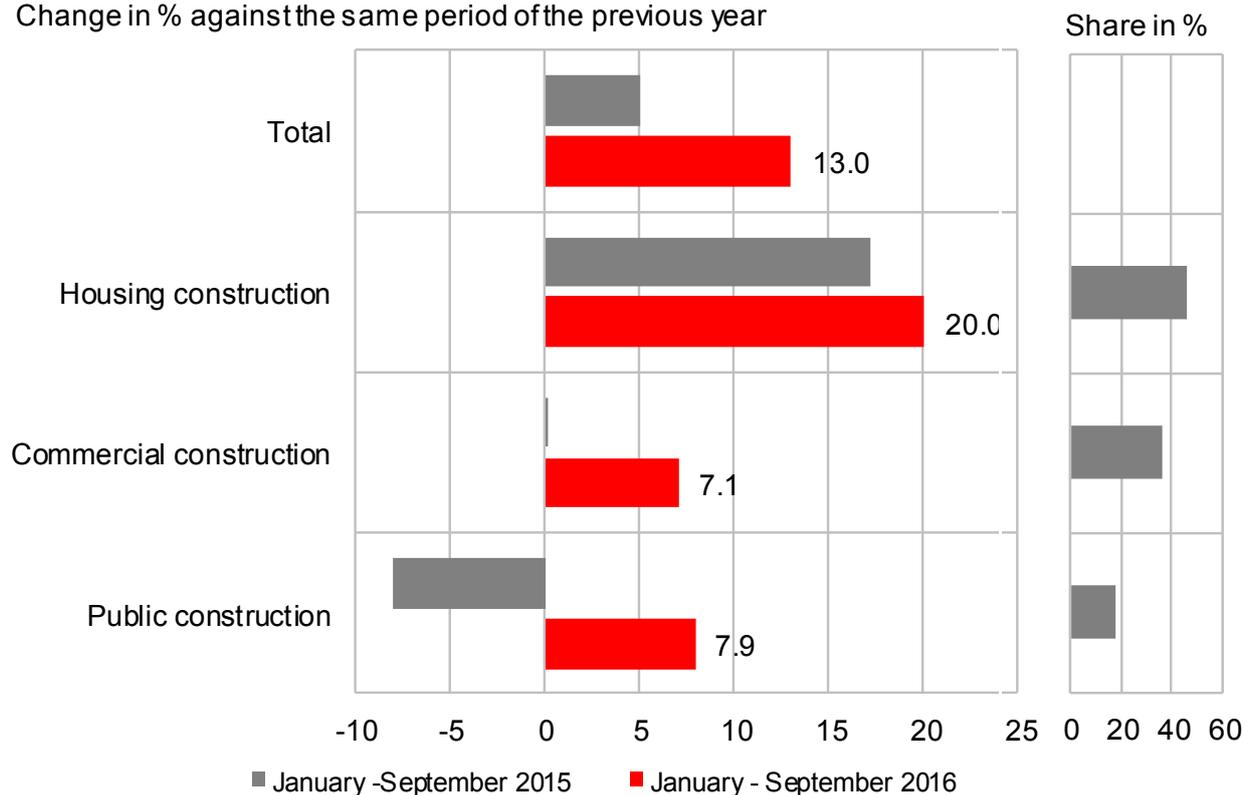
Change in % against the same period of the previous year



Source: State Statistical Institute Berlin-Brandenburg, calculations by IBB

Sales trends – main construction trades

Change in % against the same period of the previous year



Source: State Statistical Institute Berlin-Brandenburg, calculations by IBB

Tourism

More moderate pace of growth

The number of guests rose in the first nine months of 2016 by 2.5% to almost 9.5 million. All in all, around 232,000 more visitors checked into hotels in Berlin than during the same period of the previous year. Up until September, more guests were recorded especially from the UK (+37,000; +9.1%) and Spain (+30,400; +14.8%). As a result of the ease in the economic crisis in Spain, people there once again have more money to spend on travel. An average of 27,000 Spanish tourists now come to Berlin each month; in 2013, at the height of the crisis in Spain, this figure was only around 17,000. On the other hand, strong pressure on the rouble continues to prevent people in Russia from travelling to Berlin (down 22,700 against the same period of the previous year; -22.1%).

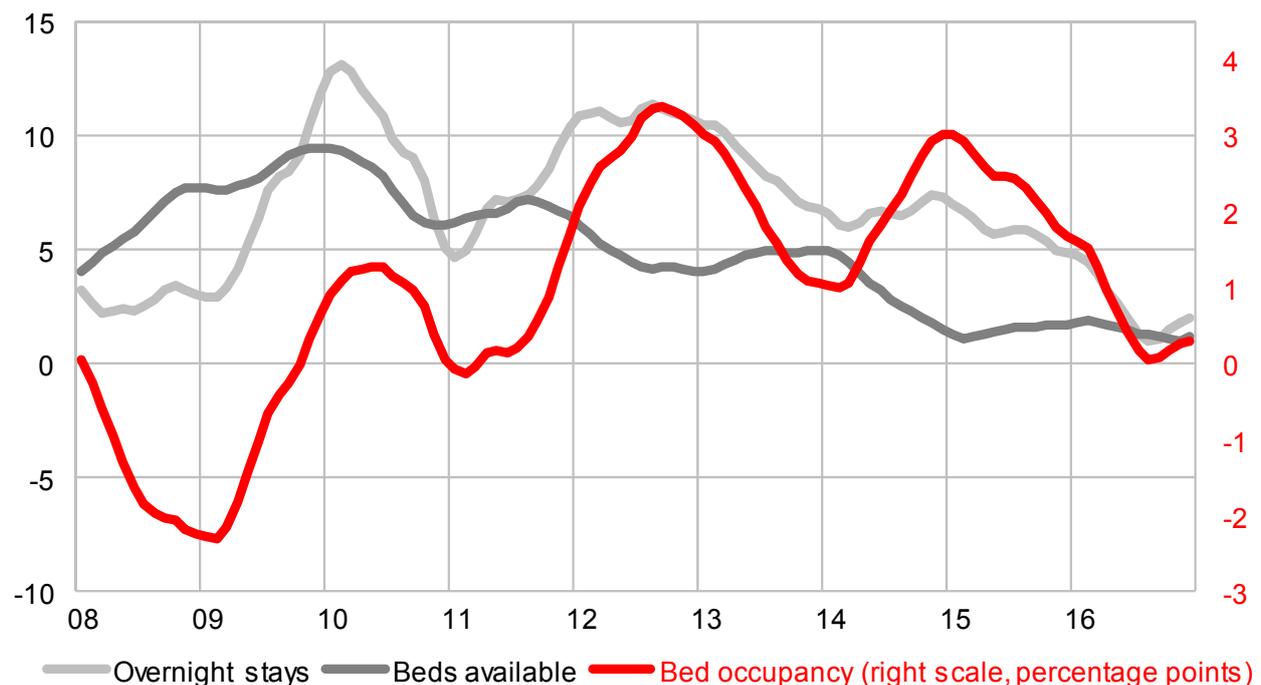
The increase in the number of guests also means an increase in the number of overnight stays. In the first nine months of 2016, a total of 23.3 million overnight stays were recorded by Berlin's hotel and hospitality sector, almost 545,800 more than in the same period of the previous year (+2.4%). The

biggest increases were recorded in the number of overnight stays by international guests (+402,000; +3.9%). Overnight stays by guests from the UK accounted for the biggest share in growth (+113,000; +10.3%).

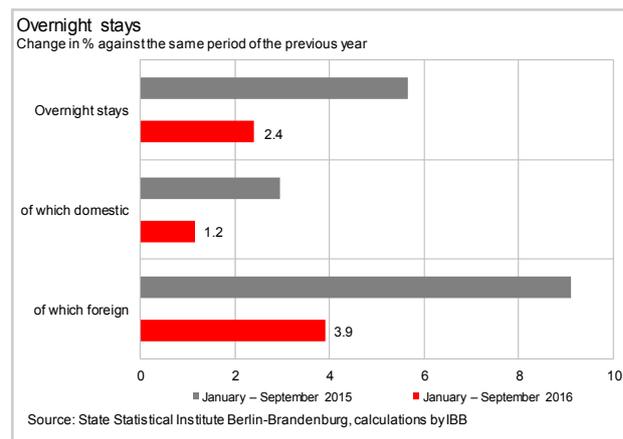
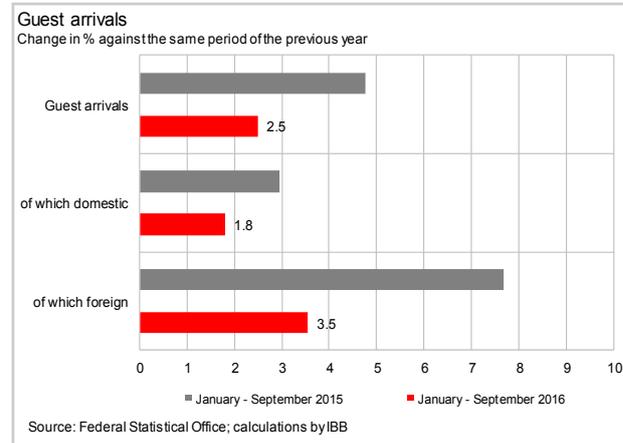
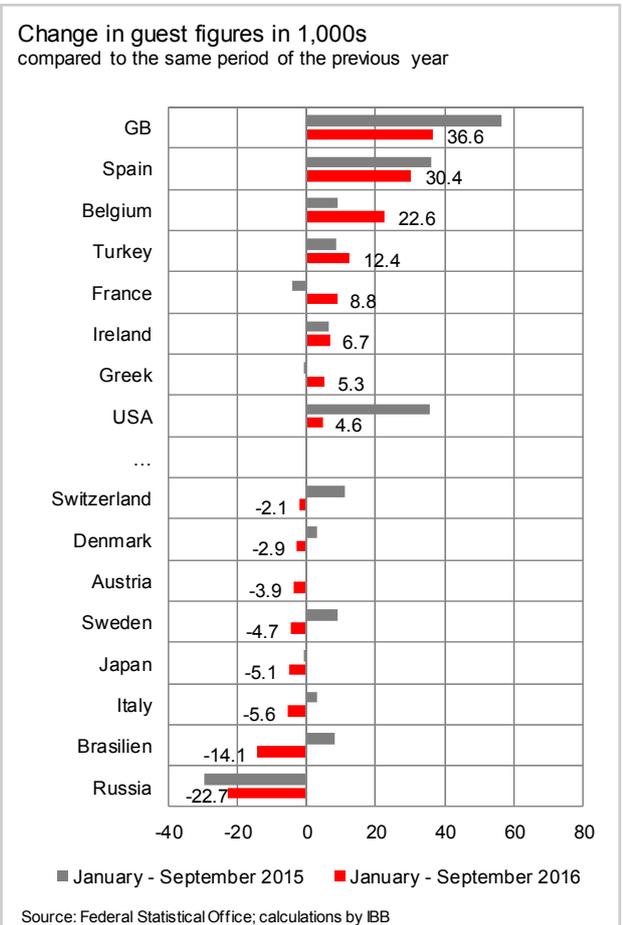
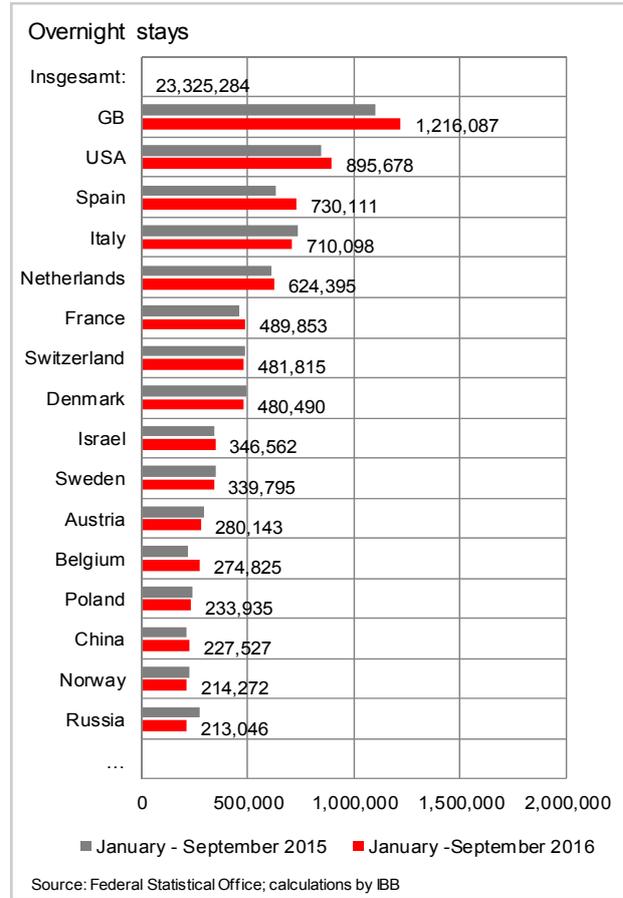
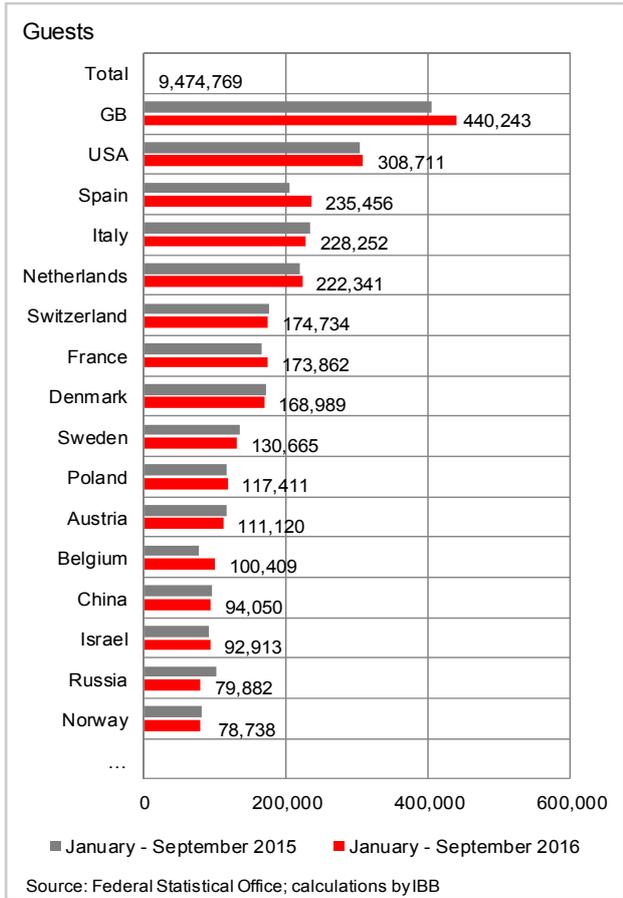
The number of guests and overnight stays is growing at a more moderate pace. This development, however, is only partly due to the decline in the number of guests arriving by air as a result of repeated air traffic strikes. This slower growth also affected bed occupancy which has lost its momentum, remaining unchanged at 61.3% in September 2016. There has also been a significant slowdown since 2014 in the expansion of accommodation capacities. With beds totalling 138,000 at the end of September, this marks an increase of just 1.5%. 20 of the smaller hotels with fewer than 100 beds have now closed, reducing the number of beds by 1,050 compared to the previous year. This means that overnight stays in Berlin in 2016 can only be expected to reach almost 31 million (+2.5%), followed then by at least 32 million for 2017.

Overnight stay, bed capacity and occupancy

Monthly trend values, change in % against the same month of the previous year



Source: State Statistical Institute Berlin-Brandenburg, calculations by IBB



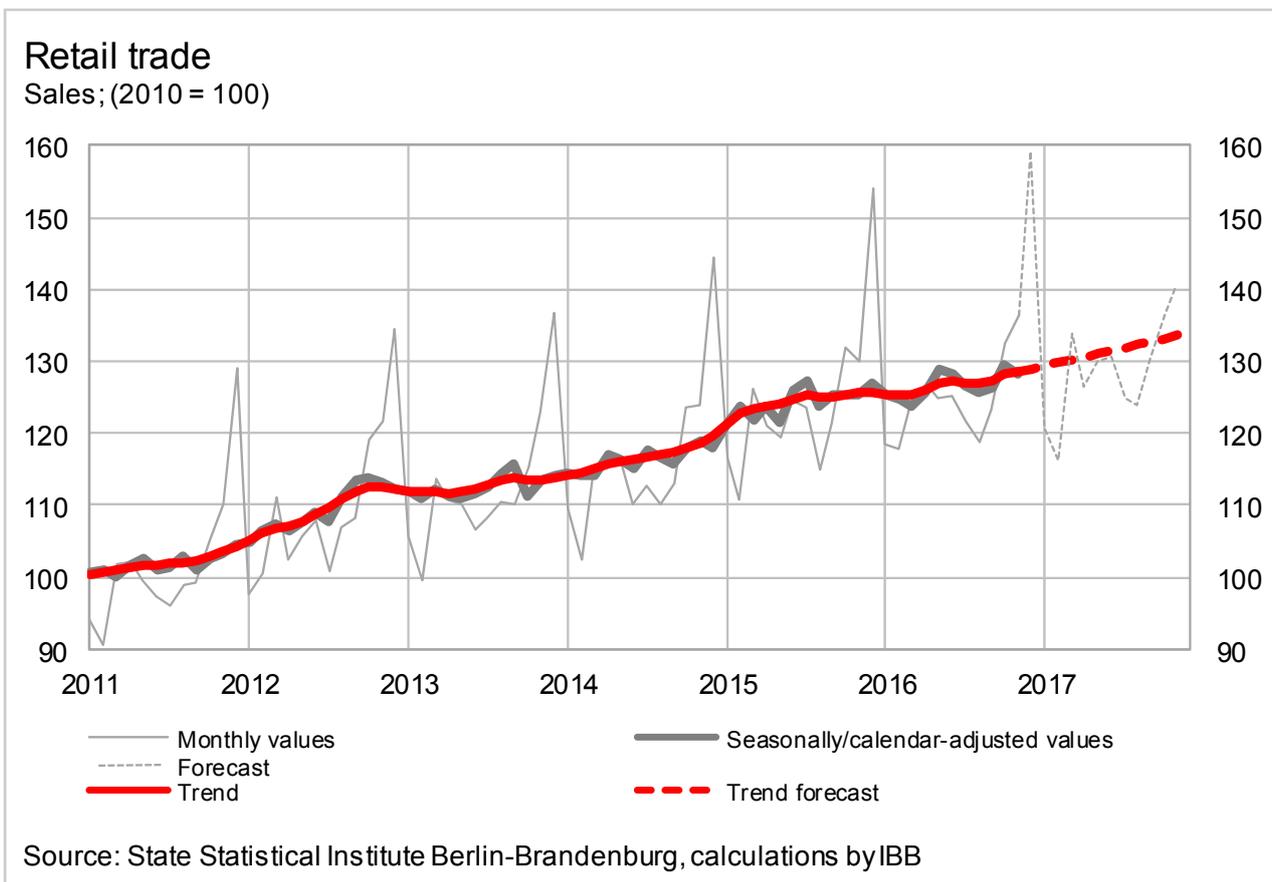
Retail sector

Sales up by 3.3%

According to preliminary calculations by the Statistical Office for Berlin-Brandenburg, sales figures for Berlin's retail sector increased in real terms by 3.3% in the first nine months of 2016 compared to the same period of the previous year, marking a slight slowdown in growth (Germany: +2.1%). The persistent increase in the city's population in recent years combined with booming tourism are the decisive factors for retail sector growth. These two factors are perceptibly impacting sales for Berlin's food retailers who recorded strong growth averaging at 3.1% (Germany: 2.2%). On the other hand, online and mail-order retail are generating considerable momentum. In recent years, many business models were established in Berlin as innovative start-ups and are now operating on an international scale. Sales in this area rose by 11.2% in the first nine months of the year (Germany: +4.7%). Traditional specialist retailers are increasingly feeling the brunt of this new online competition (-0.7%). The sports equipment and toy retail trade also managed to grow by 3.2%.

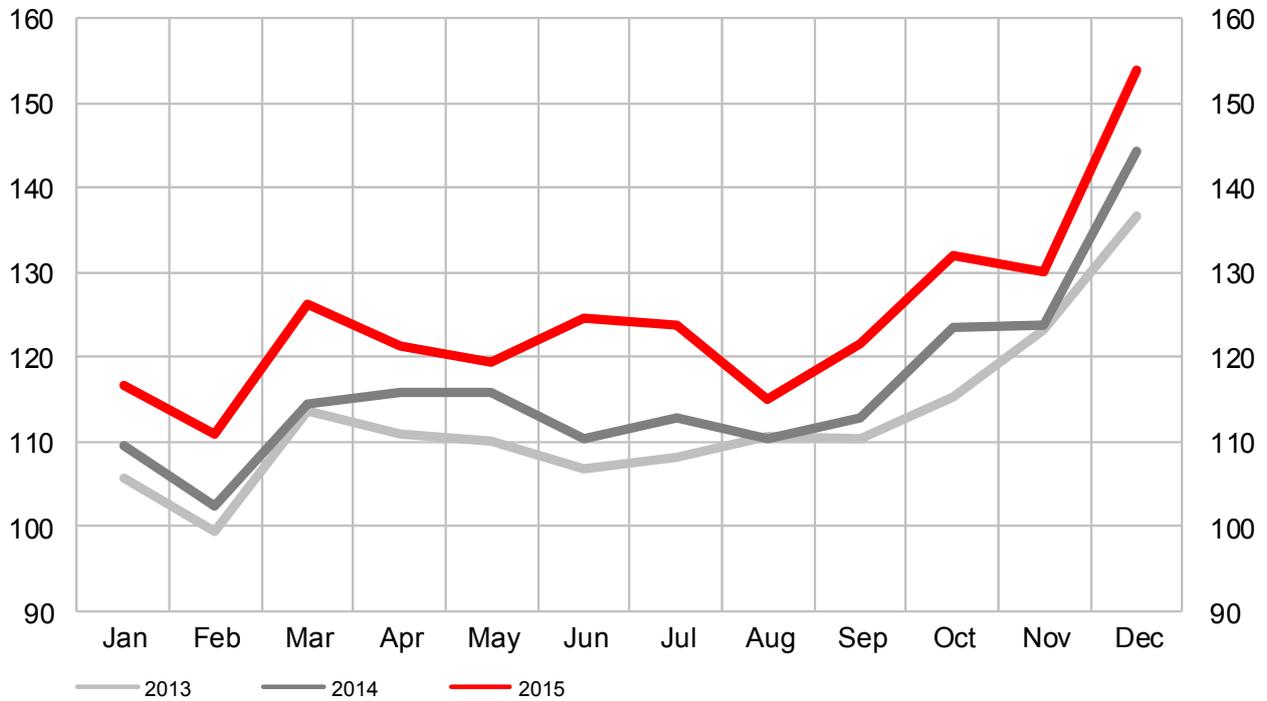
The number of people employed in retail rose in the first nine months of 2016 by a total of 1.4% compared to the same period of the previous year. In light of ever-fewer people looking to work in retail, full-time jobs were primarily created (+2.9%) while part-time employment remained almost flat (+0.3%). In the first nine months, more people were hired by online and mail-order retailers in particular. The number of people employed in online retail has risen by 12.2%, especially the number of full-time employees (+13.6%).

Conditions for consumers have not been this good for quite some time now. Increases in real wages in recent years and the introduction of the minimum wage have now arrived in the pockets of employees while consumer prices are rising only slightly and petrol prices continue to be low. Economic development in Berlin is dynamic and the number of people in jobs will continue to grow in the coming months at an above-average rate. Berlin's economic growth will continue to be strongly driven by high private consumer demand in 2017 too.



Retail trade

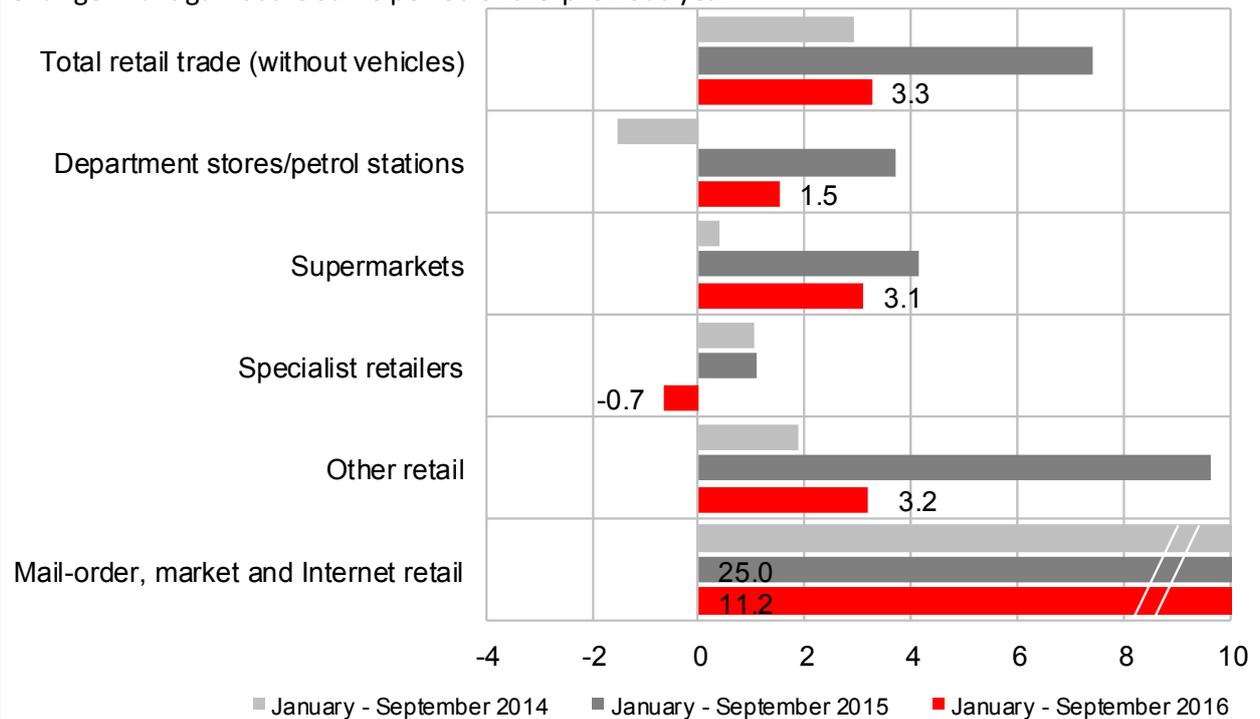
Sales; (2010 = 100)



Source: State Statistical Institute Berlin-Brandenburg, calculations by IBB

Retail trade – sales trends

Change in % against the same period of the previous year



Source: State Statistical Institute Berlin-Brandenburg, calculations by IBB

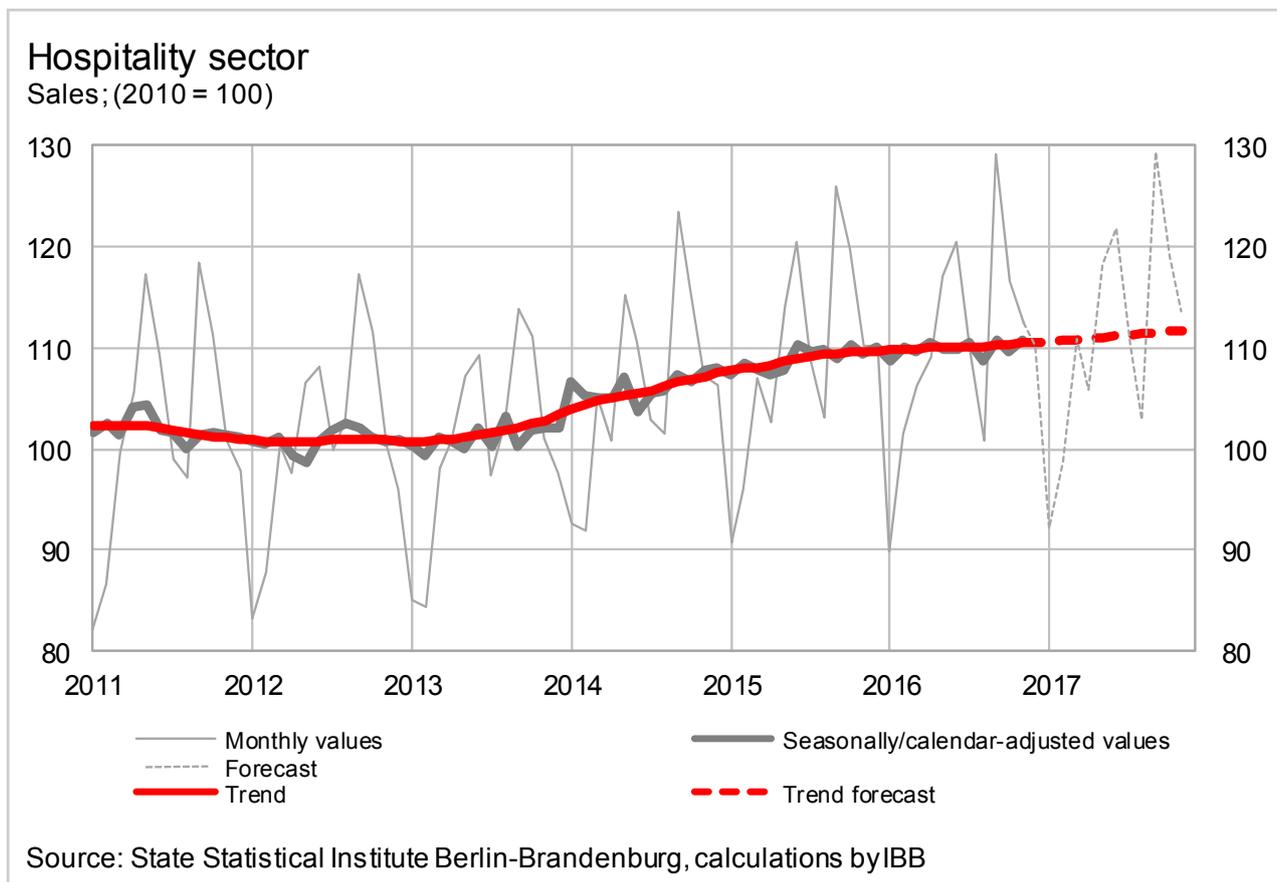
Hospitality sector

Caterer sales up by 9.4%

The slowdown in Berlin's tourism in the first nine months of 2016 (hotel guests: +2.5% compared to the previous year's +4.8%) impacted sales for Berlin's hospitality sector. Sales recorded by hotels in Berlin were down by 1.1% and significantly lower than for the same period of the previous year. That's also why price-adjusted sales for the entire hospitality sector, including accommodation and catering, have risen by only 1.5% (Germany as a whole: +1.2%). On the other hand, catering sales alone have risen by 3.2% while restaurant sales have risen by 2.5%. They are less dependent on hotel guests, especially since many people who live in Berlin and day tourists visit Berlin's restaurants. Caterers, who are also part of the catering sector, even recorded an increase of 9.4% in sales. They are benefiting from growing demand among kindergartens, schools and universities. That's because 18% of the 40,000 new people who move to Berlin each year are under the age of 20 and as many as 37% are under 25. Catering for refugees also led to a steep increase in sales for caterers in Berlin.

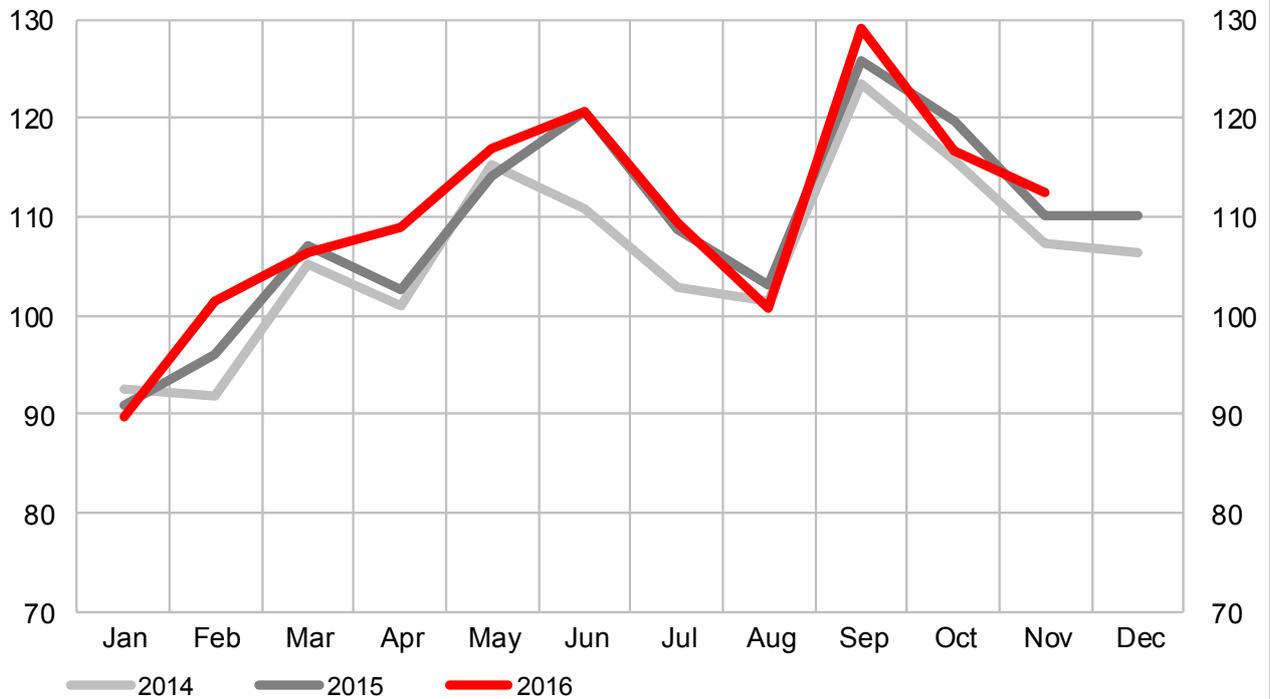
In the first nine months of 2016, the number of people working in the hospitality sector rose by only 0.9% against the same period of the previous year. Employment, especially in the catering sector, was up by 1.9%. New jobs were created in this sector, particularly by caterers (+5.2%), as well as restaurants and bars (+1.9%). In the case of accommodation, however, employment figures declined by 2.4%, especially because hotels hired fewer staff than during the same period of the previous year (-3.0%).

Hotel guests, day guests, as well as people visiting relatives and friends spent a total of around EUR 11bn in the capital city, i.e. around EUR 62 per guest per day. Hotels guests spend an average of EUR 204.80 per day on accommodation, catering, culture and shopping – a total of around EUR 6bn per year. In the first nine months of 2016, hotel guests in Berlin already spent EUR 4.9bn, i.e. EUR 159m more than during the same period of the previous years (+3.4%). Spending by tourists generates important sales momentum, especially for the hospitality sector, the retail trade and the culture sector.



Hospitality sector

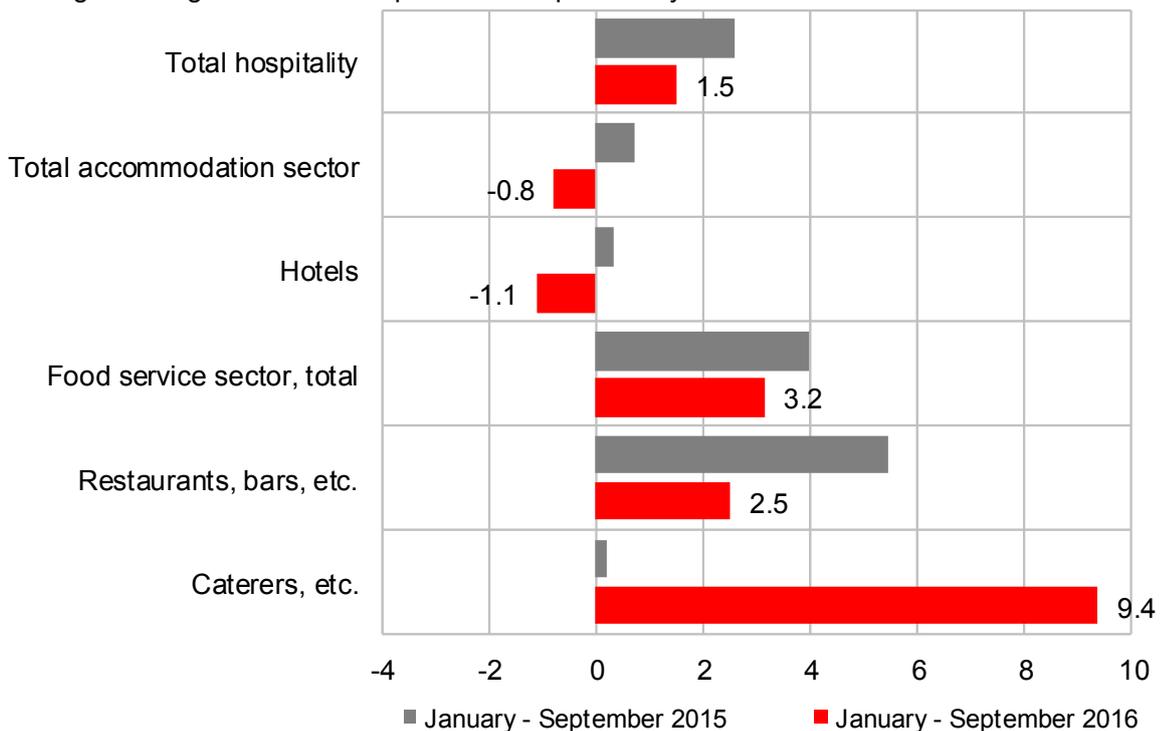
Sales; (2010 = 100)



Source: State Statistical Institute Berlin-Brandenburg, calculations by IBB

Hospitality sector – sales trends

Change in % against the same period of the previous year



Source: State Statistical Institute Berlin-Brandenburg, calculations by IBB

Start-ups and insolvencies

Steep increase in the number of start-ups

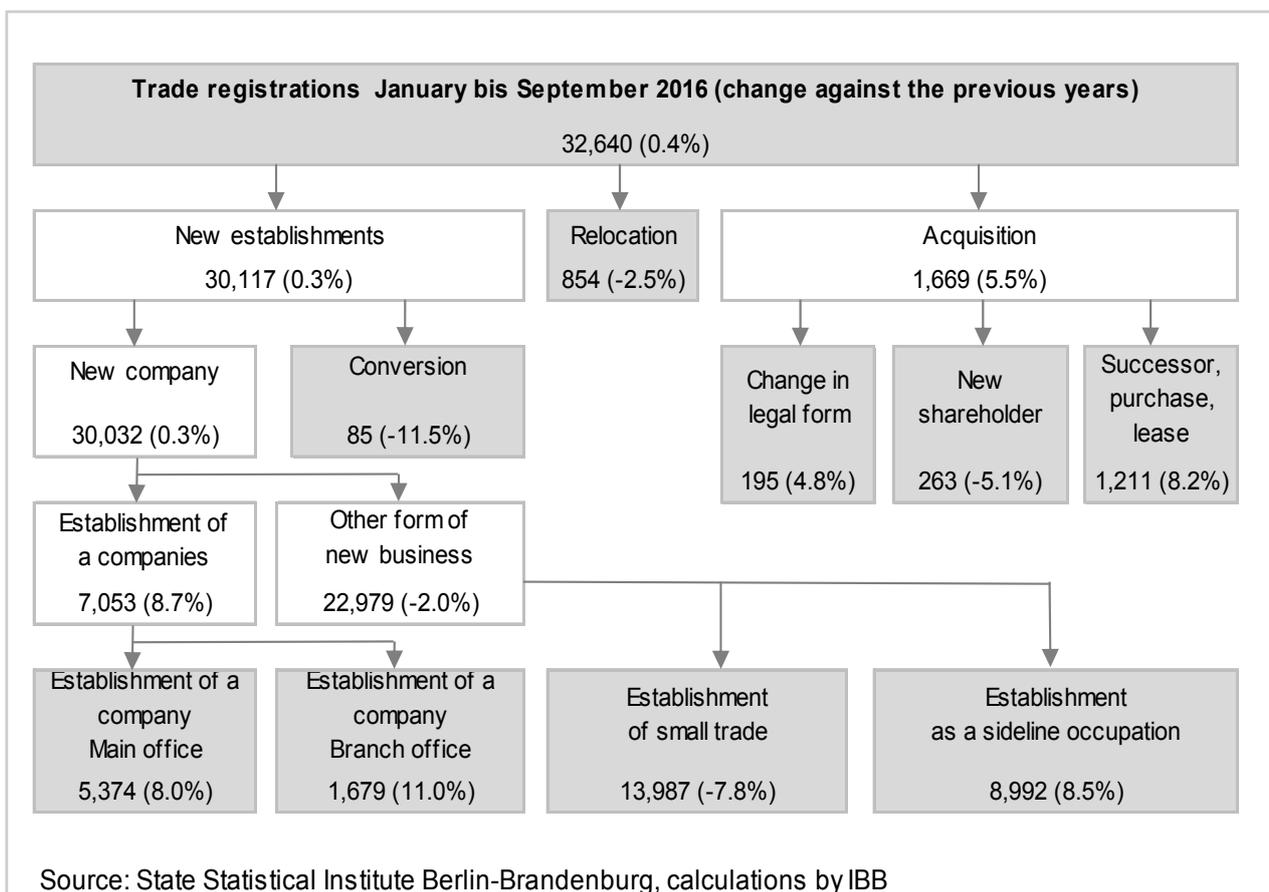
In the first nine months of 2016, 32,640 businesses were registered with the commercial registers. This marked an increase of 0.4% or 141 more registrations than in the same period of the previous year. During that same period, however, only 28,783 companies closed shop, so that the bottom line figure was ultimately positive showing around 6,857 companies.

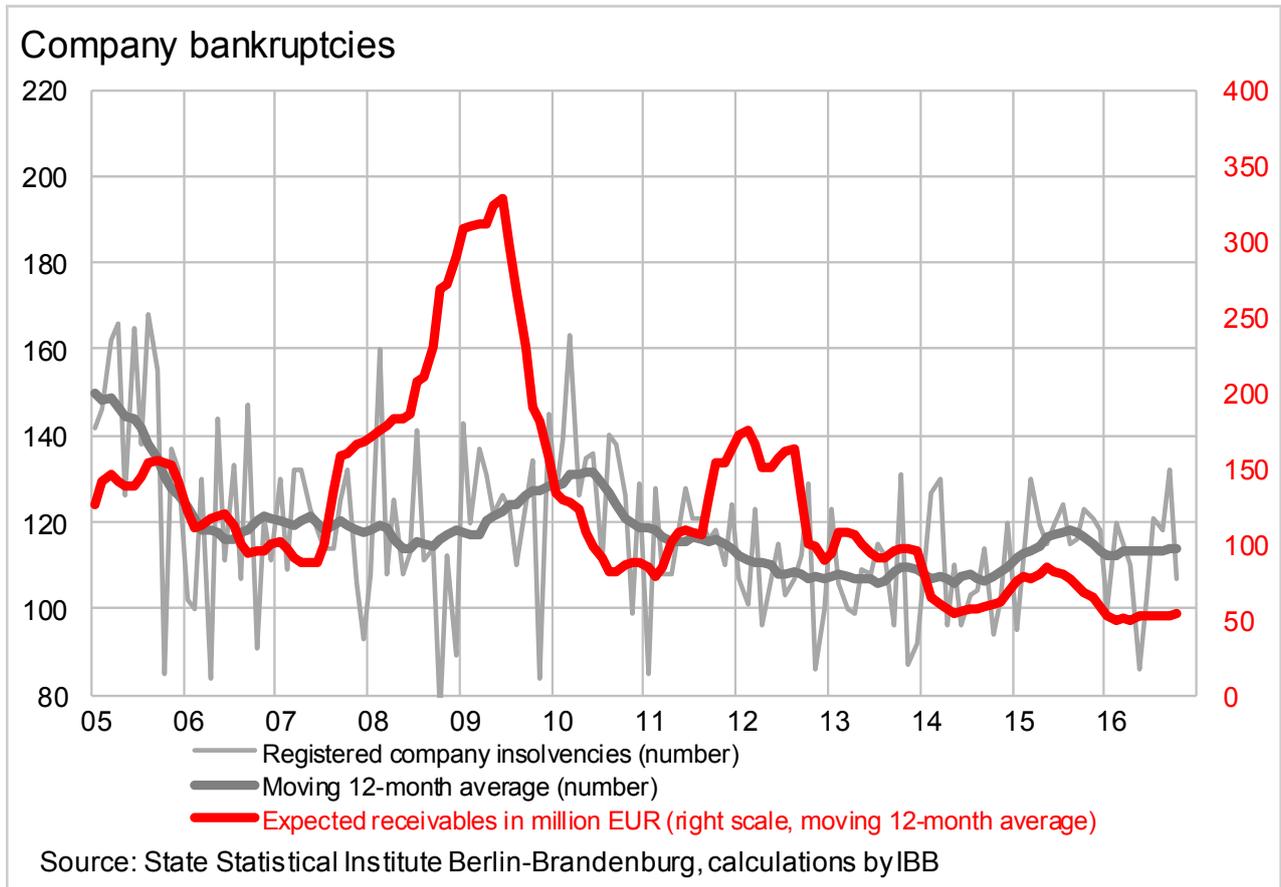
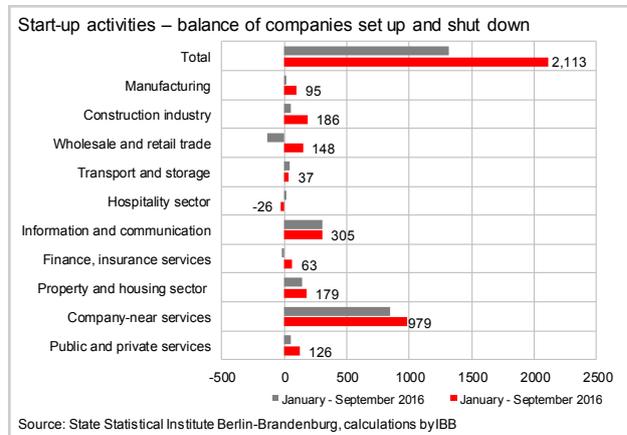
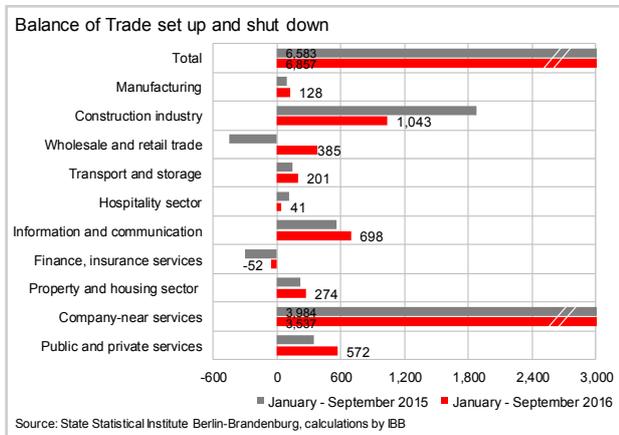
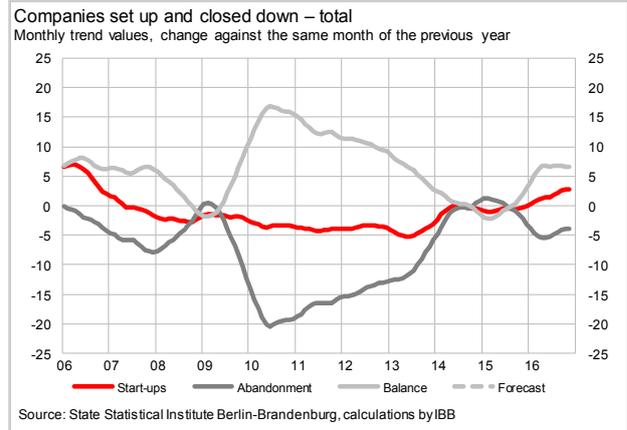
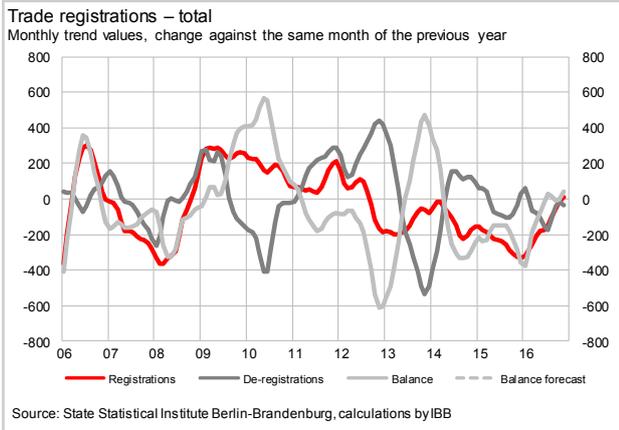
That being said, the high number of registrations in the period from January to September 2016 also includes 1,669 acquisitions. On top of that, not every one of the 30,032 new companies set up will create new jobs. Of these new companies, 22,979 (76%) have started out as small businesses or as a supplementary source of income. In some cases, these new companies are set up in order to bridge unemployment. On the other hand, the 7,053 company start-ups registered in the register of companies, associations or cooperatives are commercial enterprises which at the time of registration can already be seen to be of significant economic importance.

That's because 75% of these companies are corporations, limited partnerships or stock companies that will create more jobs in the future. In the first nine months of 2016, 567 more companies were set up than during the same period of the previous year (+8.7%). A particularly steep increase can be seen in the number of start-ups in other economic services (+33.6%) as well as in retail (+7.2%) and in construction (+23.4%).

Insolvency claims down by half

Following a strong increase in 2015 (+7.8%), insolvencies seem to have passed their peak. The number of companies forced to close shop is no longer rising but has, for some months now, remained steady at 115 closures per month. In the first nine months of 2016, only 1,004 companies were hit by insolvency (-41 or -3.9%, respectively), especially in the retail (169) and construction (148) sectors. Receivables claimed by creditors against bankrupt companies are now down almost by half to EUR 429m.





Labour market

Well-educated unemployed people

Berlin's labour market has been developing at a rapid pace. According to Germany's Federal Employment Agency, only 170,874 people were registered as unemployed in November 2016. Almost 24,000 of them have third-level education and good prospects on the labour market. The share of academics among the unemployed totals 14% in Berlin and is the highest rate of all the German federal states. On the other hand, 85,000 unemployed people in Berlin have no qualifications (share: 49%, Germany: 46%). That being said, however, Berlin's labour market now offers hope of employment for these people too. This can be seen by the currently high demand for workers, especially in lower-paid areas, such as transport, logistics and security (4,861 job vacancies), as well as the retail sector (3,029). On the whole, the unemployment rate in November totalled 9.2% and was hence 3.5 percentage points higher than the national average. Refugees with a residence permit will be gradually included in unemployment statistics so that the decline in unemployment can be expected to slow down in the months to come.

That being said, the labour market continues to record a high rise in the number of people in regular jobs. In September 2016, this figure totalled 1,384,000, marking an increase of 47,306 people in jobs compared to the figure for the same month of the previous year (+3.5%). New jobs have been created, especially in the real-estate sector and in freelance and scientific services. In an annual comparison, employment in these sectors rose by 7,493 to 161,000 people in jobs (+4.9%). In Berlin's growth sector of information and communications with its high wages, the number of jobs rose by 6,015 in September to 83,900 jobs (+7.7%). A good 500 fewer jobs (-1.5%) were recorded for financial and insurance services. The companies in these sectors that employ 33,900 people are under enormous margin pressure due to persistently low interest rates. All in all, however, Berlin's boom in employment is not expected to decline in 2017 which, in turn, will have a positive impact on consumption in the capital city.

Regular employment

Change in percentage points against the previous year



Source: Federal Employment Agency, calculations by IBB

Taxes and loans

Steep increase in tax revenues

The overproportional rise in employment figures and sales for Berlin-based companies on the one hand are leading to record-level revenues for the Federal Land of Berlin on the other. In the first ten months of 2016, tax revenues once again rose sharply by EUR 712m to EUR 11.7bn (+6.5%). Wages (EUR 3.6bn) and VAT (EUR 3.5bn) already account for more than half of this (EUR 7.1bn). Due to the strong rise in transactions in the real-estate sector, property transfer tax also reached a record level of EUR 935m (+17.3%) in the first ten months. Tourism also accounted for rising tax revenues. This is due, on the one hand, to accommodation tax (EUR 37.3m; +5.4%), and to higher VAT revenues from retail, restaurants, and various tourist service areas. Due to the positive trend in tax revenues, the Federal Land of Berlin will end fiscal 2016 once again with a strong fiscal surplus.

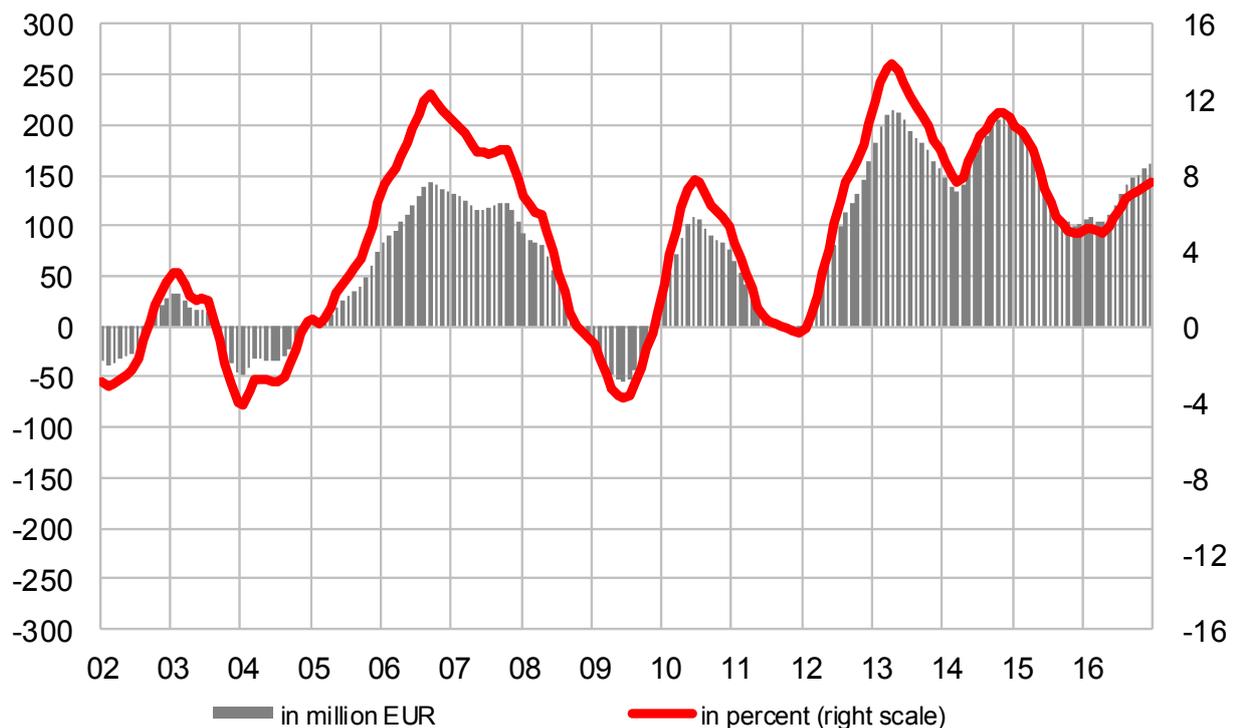
Loan portfolios increase again

According to the German Bundesbank, the loan portfolios of banks or bank branches operating in Berlin totalled EUR 140.8bn in the second quarter of 2016. Business loans accounted for EUR 78.3bn of this figure, rising by 2.8% against the same quarter of the previous year. One particularly positive development is the 10.8% rise in loans in the processing sector to EUR 1.8bn. This marks a turning point for the downward trend in loan portfolios that had persisted since early 2013. Short-term loans with terms of up to one year rose only slightly (+1.5%) whereas medium-term (+25.4%) and long-term (+10.3%) loans increased significantly, which is an indication for stepped up investment activities.

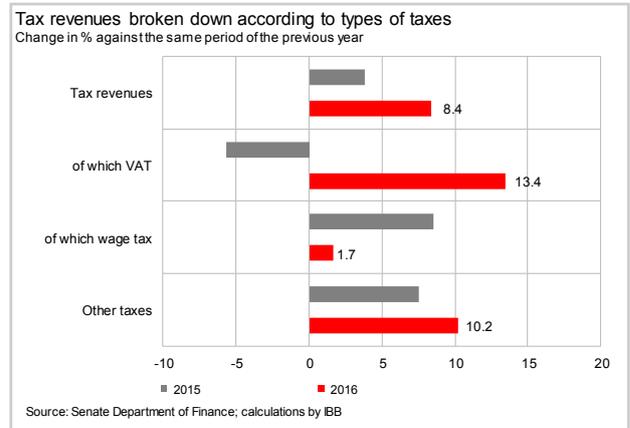
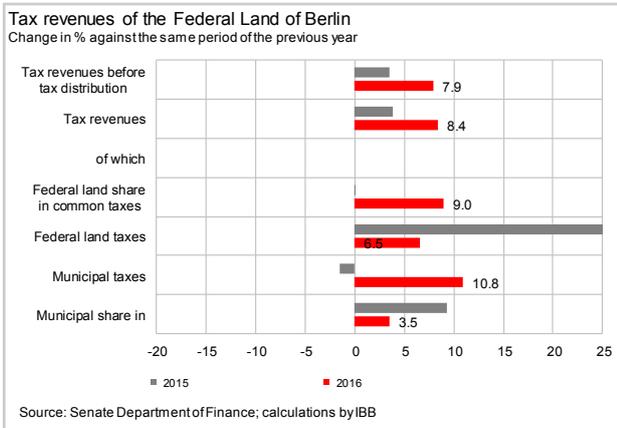
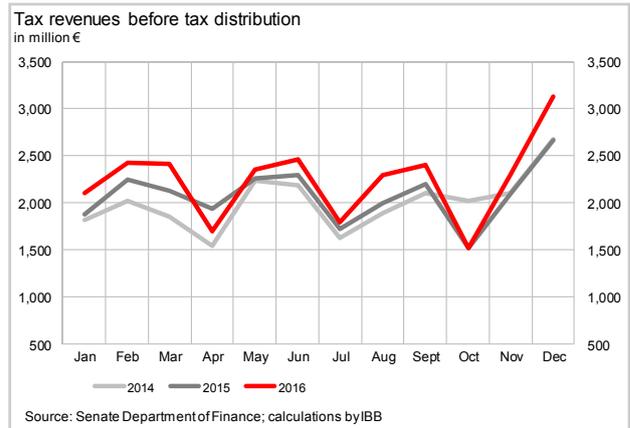
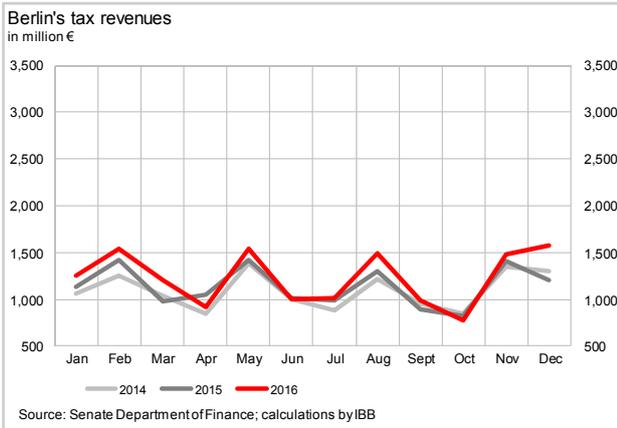
While in the past five years old loans were often prematurely redeemed and converted to more favourable interest rates, housing construction loans recovered slightly in the year under review (second quarter of 2016: +3.4%). Due to the construction boom in Berlin, the granting of new loans, in particular, has recently been revived again.

Berlin's tax revenues

Monthly trend values, change against the same month of the previous year

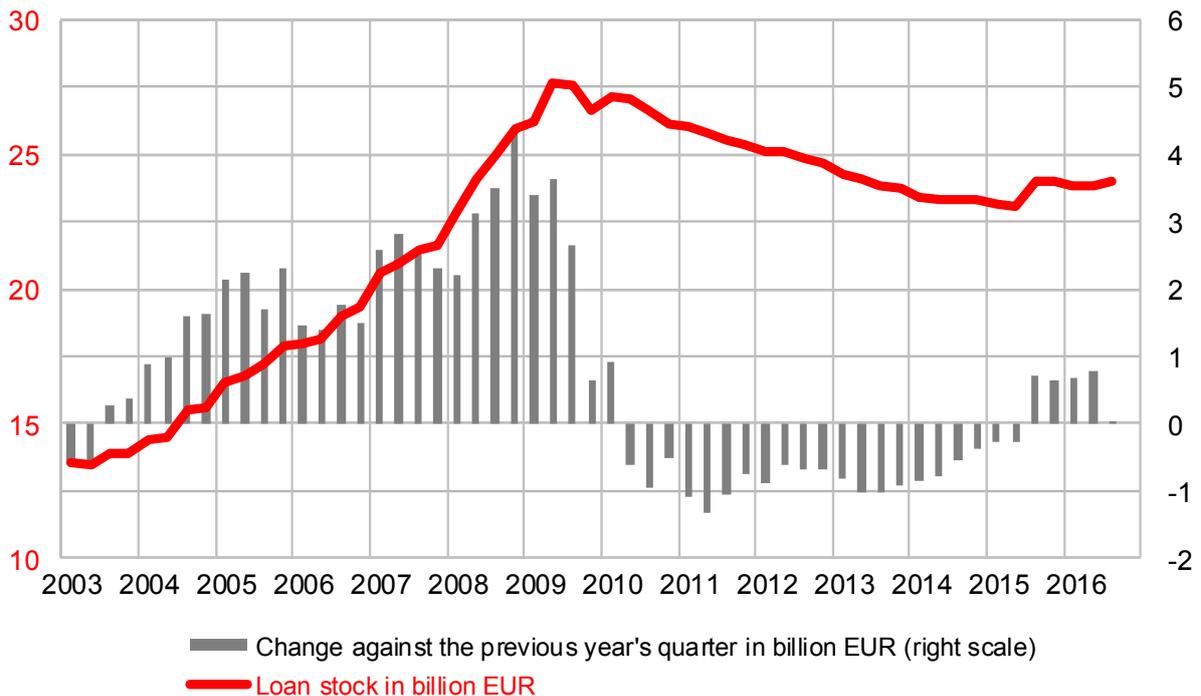


Source: Senate Department of Finance; calculations by IBB



Mortgages

Loan stock of all bank branches in Berlin



Conclusion

Turbulent times

In light of many uncertainties, global economic growth in 2016 was merely moderate and future development also faces considerable risks. In addition to political uncertainty in Europe, not least due to Italy's failed constitutional reform and the as yet unknown effects of the Brexit vote,

international finance markets may become turbulent, also in response to uncertainties regarding the implementation of the election promises made by the new US president. The designated US president has promised huge tax reductions, a public infrastructure programme along with extensive trade restrictions. It is still not clear how many of these promises will come to pass. In the short term, slight growth momentum can be expected. The possible impact of a protectionist US policy, however, will not become apparent for some time.

The transformation process in China is proving to be difficult. Since the beginning of 2016, the double-digit increase in public investments in infrastructure generated considerable momentum for the economy. Weak exports and a possible overheating of the real estate sector continued to pose difficulties over the course of the year. That being said, growth is likely to remain stable in the coming quarters.

In the Eurozone, the European Central Bank's (ECB) extremely relaxed monetary policy played a key role in the economic upswing. However, the upswing in the euro countries is not self-supporting and far too weak in light of the extensive support measures by the European Central Bank. There are still considerable structural problems, especially since the appetite for reform has now weakened and some states do not see the need for the required budgetary discipline. Monetary policy covers up these difficulties and this poses a growing threat to finance market stability. It is becoming more and more difficult for the ECB to depart from its expansive monetary policy. Further structural reform is necessary, especially the kind that permits more flexible wage and price formation and increases labour mobility. On top of this, Europe's finance sector continues to be susceptible to economic shocks. Major banks, in particular, are not sufficiently capitalised.

In Germany, the economic upswing continued in 2016 with growth of 1.9%. That being said, however, a somewhat lower growth rate of 1.1% is expected for 2017. This decline is largely due to a calendar effect. While an average of 251.5 days were worked in 2016, 2017 has around 3 fewer working days due to bank holidays meaning a reduction of almost 0.4 percentage points in economic output.

Although Berlin's economy once again recorded overproportional growth of around 3.0% in 2016, the city will not be fully able to swim free of uncertainties and economic trends in 2017. That's because in the second half of 2016 order intake for industrial companies in Berlin slowed down slightly with a downward trend which is an indication of moderate industrial development in 2017. The calendar effect will also be felt in Berlin, especially since no calendar-adjusted GDP values are reported at federal level in the regional statistics. That being said, however, the calendar effect will not have a major impact on Berlin's economy because industry in Berlin accounts for only 9.1% of total gross value and bank holidays, on the other hand, boost tourism in the city and hence strengthen the hospitality sector.

Another indication of Berlin's current positive economic development is the low rate of insolvencies among companies which had risen continuously up until mid-2015. Creditor claims are now down by half. The significant growth recorded in almost all areas of tax revenues in Berlin also reflects the overall economic situation in the city. In the months to come, growth in Berlin will be driven by high consumption combined with comparatively low oil prices and persistently high immigration figures. Berlin's exports in 2017 will be boosted by the very favourable euro to dollar exchange rate. Support will also be provided through (at times overdue) public and private investments. Although geopolitical uncertainty will not abate, Berlin currently has sufficient defences to stabilise the situation. The services sector and construction especially will more than compensate for weaknesses in other areas of the economy.

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