

Berlin *Konjunktur*

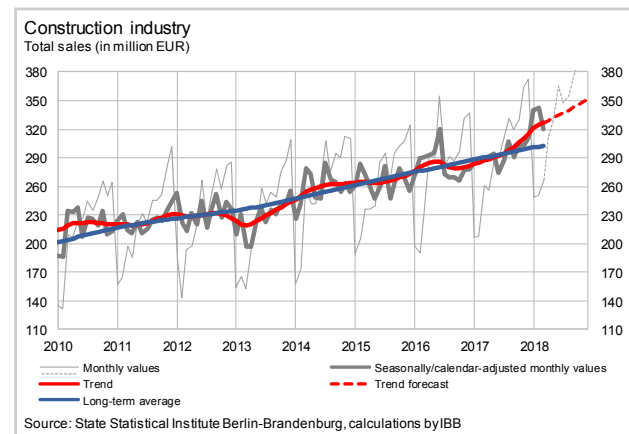
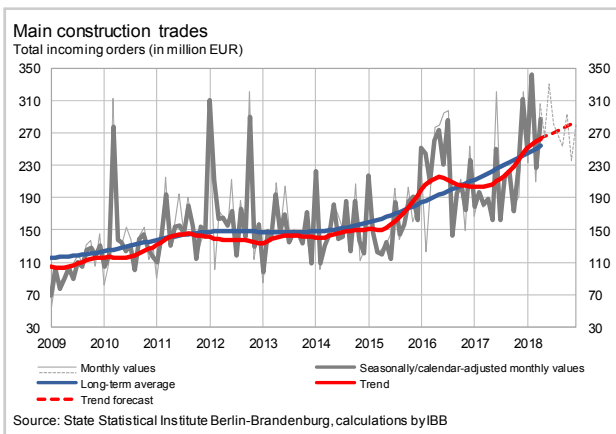
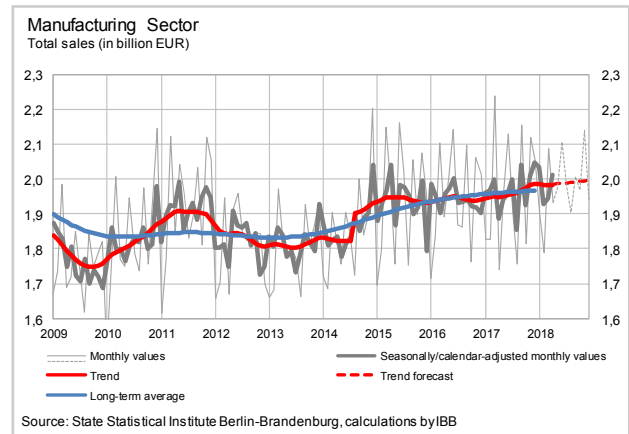
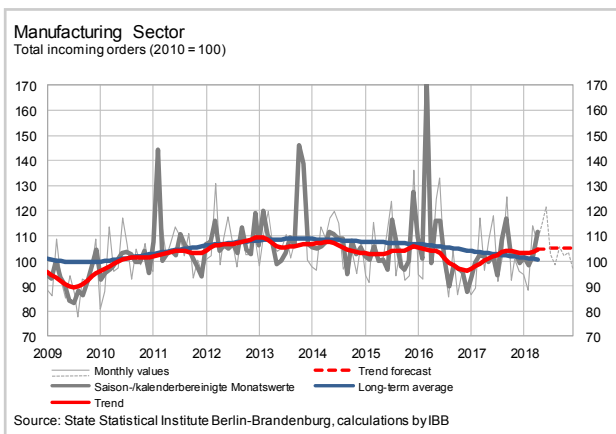
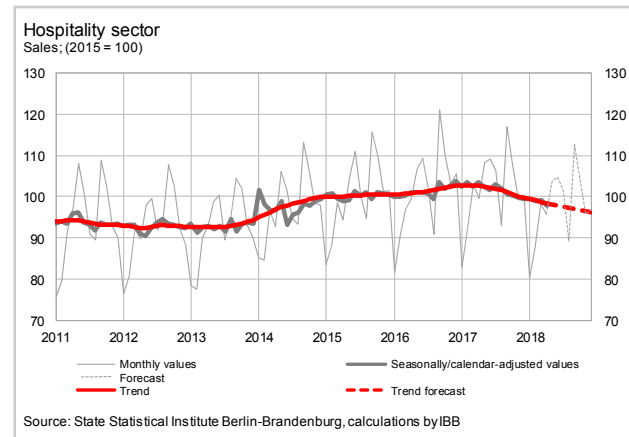
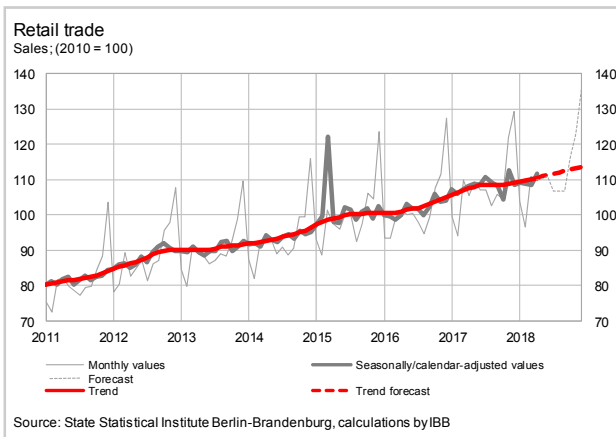
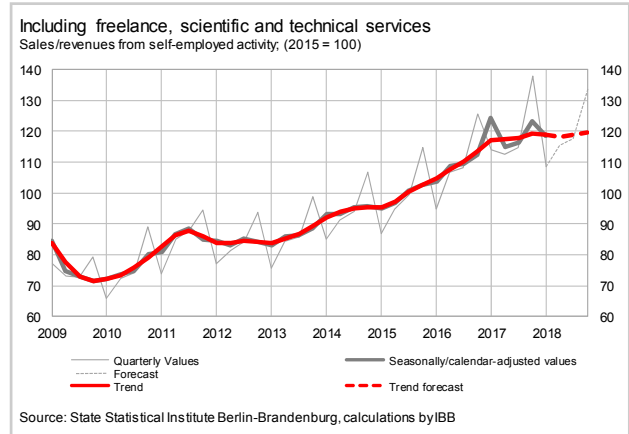
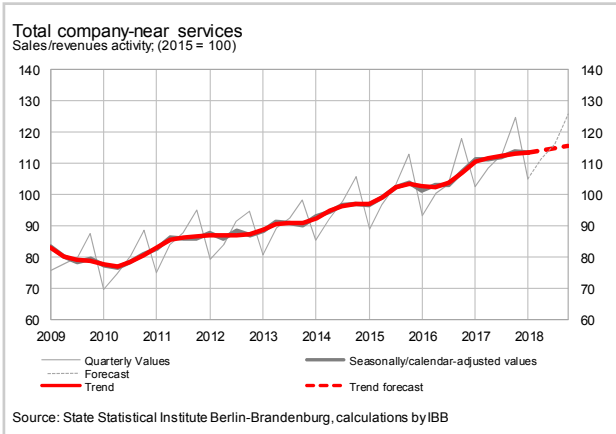
Berlin's economy in the fast lane

April 2018

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Seasonally and calendar-adjusted economic data/trends



Summary

Berlin's economy in the fast lane

In 2017, Berlin's economy grew by 3.1%, close to one percentage point above the national average. Due to revisions by the Federal Statistical Office, growth for the previous four years, measured as Gross Domestic Product (GDP), was also adjusted upwards, so that for the past three years Berlin has recorded economic growth of more than 3%. With figures far above long-term average growth, Berlin's economy is currently booming.

Economic momentum in Berlin will continue in 2018, although the peak of the economic cycle has probably been reached. Even though Berlin's economy now stands on a much broader basis than one year ago, private investments, in addition to consumer spending, are now also contributing to expansion. This is demonstrated by loans to companies and self-employed people granted by banks in Berlin which rose significantly by 6.8% in 2017 to EUR 85.6bn. Together with the well-filled public investment funds, this will further strengthen the already high economic momentum in the coming months. However, sustained growth far above potential growth will lead to overutilisation of Berlin's economy so that slowing effects will gradually come into play. Over the next two years, capacity bottlenecks at companies and a shortage of skilled workers are expected to slowly weaken the economy. Nevertheless, growth in Berlin will remain high, with 2.7% expected for 2018.

Significant increase in employment

The labour market in Berlin is benefitting from above-average economic growth. Over the past three years, the total number of people in regular jobs in Berlin has risen by 170,000. At the beginning of 2018, this number rose once again significantly against the previous year by 59,716 to 1.45 million. With a growth rate of 4.3%, Berlin is at the top of all federal states, close to two percentage points above the German average. Companies in Berlin still have very high demand for employees. Skilled employees are in demand in all sectors, especially, however, in the field of information and communication where wages are particularly high. Compared to the previous year, 8,799 new jobs were created here. Every seventh new job in Berlin is created in this future industry. But 8,046 more jobs were also recorded in real estate, scientific and technical services. The number of jobs is expected to rise from around 55,000 to a good 1.5 million in 2018. The number of people without jobs will fall below the 160,000 mark for the first time in 2018.

That being said, 162,000 people were still registered as unemployed in March 2018. This corresponds to an unemployment rate of 8.5% (Germany: 5.5%). If, however, the number of people undergoing vocational integration or continuing vocational training is also included, the number increases to 233,000 underemployed people. Unemployment is also likely to decline at a slower pace in the future because fewer and fewer qualified people are available for gainful employment in Berlin. This development will limit growth opportunities for Berlin's economy in some areas. Due to high demand for labour, companies in the construction industry and the digital economy, in particular, are finding it difficult to fill vacancies with suitably trained personnel.

More optimistic outlook for industry in 2018

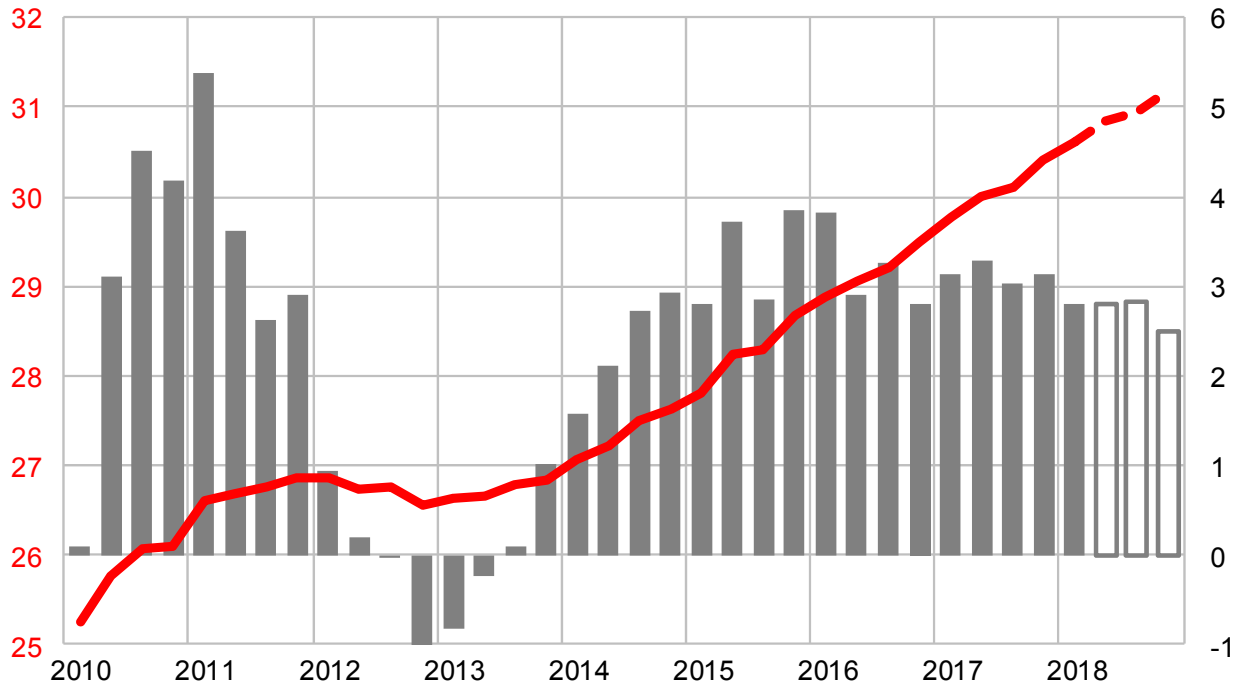
Order intake for Berlin's industrial sector developed well at the beginning of 2018. Domestic orders especially rose by 5.3%, but orders from abroad also increased noticeably (+2.7%). The recovery seen in order intake and the creation of new industrial jobs at the beginning of the year are likely to secure industrial sales in the later quarters of the year. After a decline of EUR 400 million in gross domestic product in 2017, Berlin's industrial sector will once again make a positive contribution to Berlin's economic growth in 2018, all the more so because of the recent improvement in conditions for foreign business due to a strong eurozone economy and the expected increase of around 4% in Berlin's exports.

Construction and services operating at high speed

Despite last year's significant expansion of the real estate market in Berlin, this sector continues to be characterised by a demand overhang, as indicated by rising rents and purchase prices. Today's higher incomes in Berlin combined with low financing costs due to persistently low interest rates are driving this expansion. Prices are now rising sharply throughout the construction industry. The topic of scarce building land will continue to play an important role in 2018 and will dampen the expansion of housing supply in Berlin. Business services, where sales growth of 6.4% was reported in 2017, continue to generate the strongest growth for Berlin's economy. The main driver is above-average wages in the digital economy, where growth in sales and employment is in the double-digit range.

GDP development in Berlin

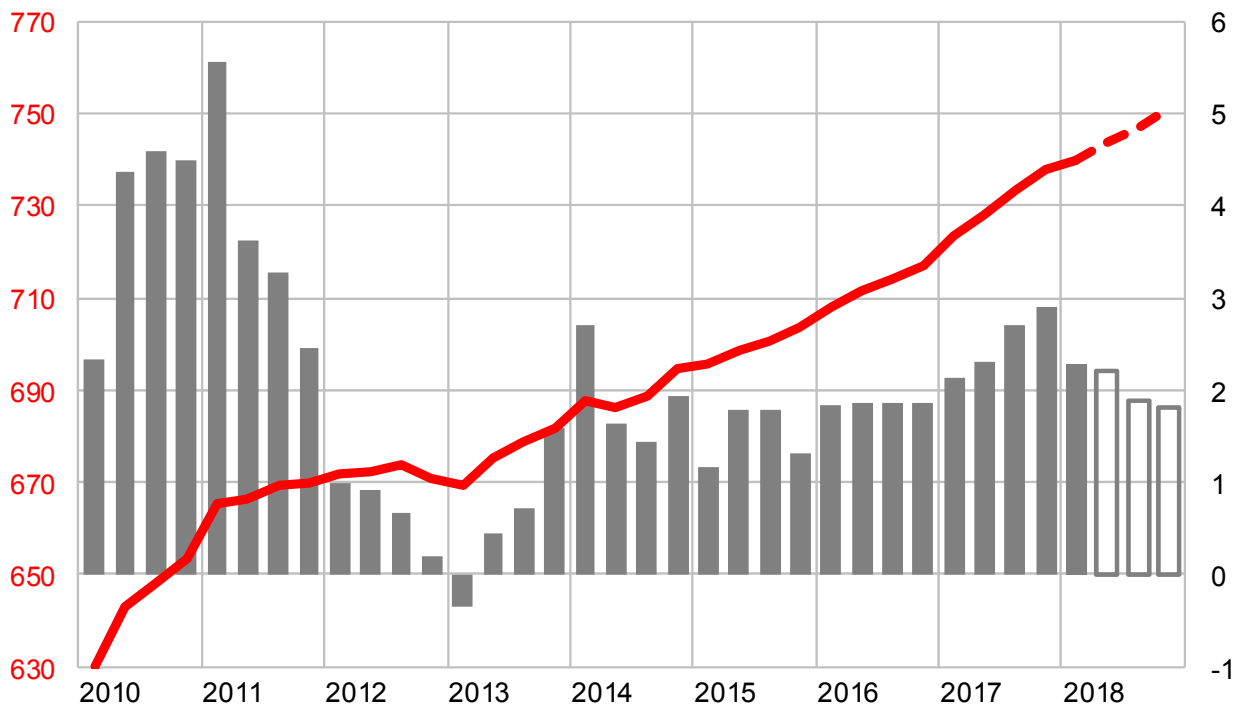
Billion EUR in 2010 prices (left scale); growth rates against the previous year in % (right scale)



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

Business services

Good prospects for 2018

With 2017 sales up by 6,4% against the previous year, companies providing business services achieved a very good result and one that is significantly higher than in 2016 (+3,3%). Sales in this segment totalled around EUR 65 billion, accounting for almost 30% of total sales in Berlin.

Airlines continued to grow by another 24,4% in 2017. However, the bankruptcy of Berlin's largest aviation company has only been included in the statistics since November and its impact will depend on the ongoing bankruptcy proceedings. Sales of information services (+21,2%) and freelance services (+28,3%), which include studios, graphic and communication design, rose significantly. By contrast, passenger and freight transport (-1,0%) as well as travel agencies and tour operators (+0,7%) lost some momentum in connection with customer uncertainty caused by turbulence in the aviation sector. Revenues in the telecommunications sector (-0,1%) also declined.

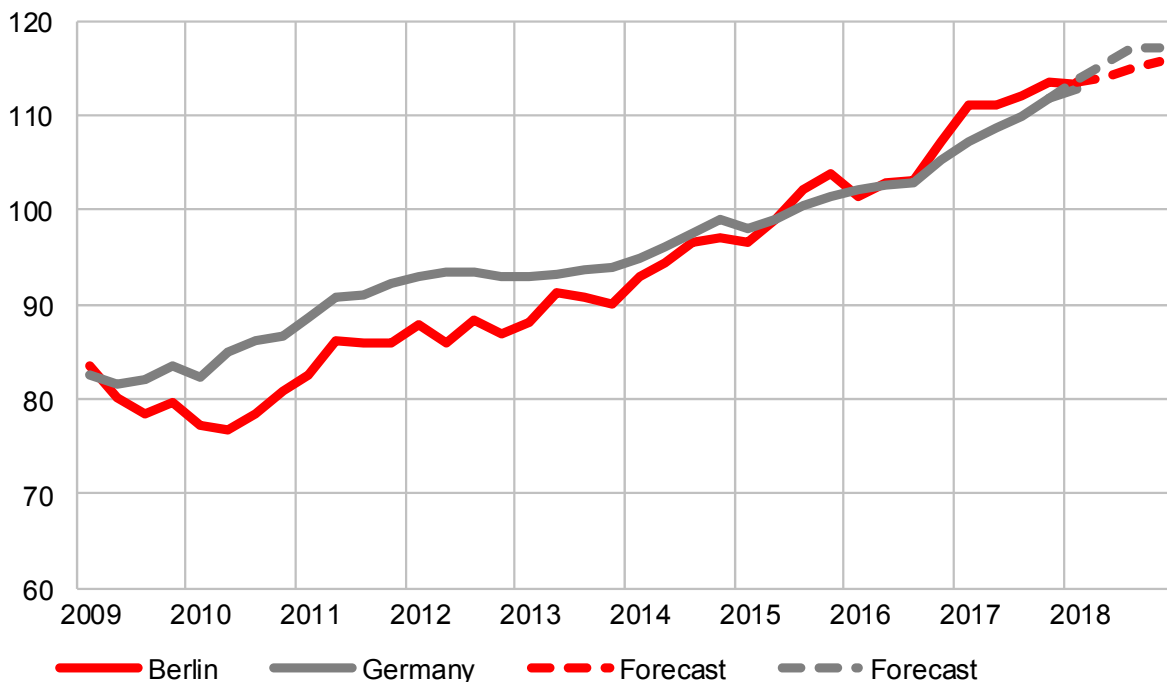
Employment: The digital economy driving jobs

In recent years, business service providers have significantly expanded their hirings. This is where most new jobs were created in Berlin. Last year, 6,5% more employees were counted in this area than in the corresponding period of the previous year (Berlin as a whole: +4,3%). Today, some 550,000 people are employed in the business services sector. In the information and communication sector that now provides jobs to 90,000 people, employment rose by 5,6%. This sector includes publishing (+2,1%), the film industry (+1,8%) and the core sector of the digital economy (+5,7%).

All in all, the business services sector will continue to be a strong driver for jobs in 2018, attracting qualified people from all over the world to Berlin. Even if the consequences of Air Berlin's bankruptcy have a negative impact, the creation of jobs in business services will continue in 2018 and thus make a positive contribution to economic development in Berlin.

Company-near services – sales development

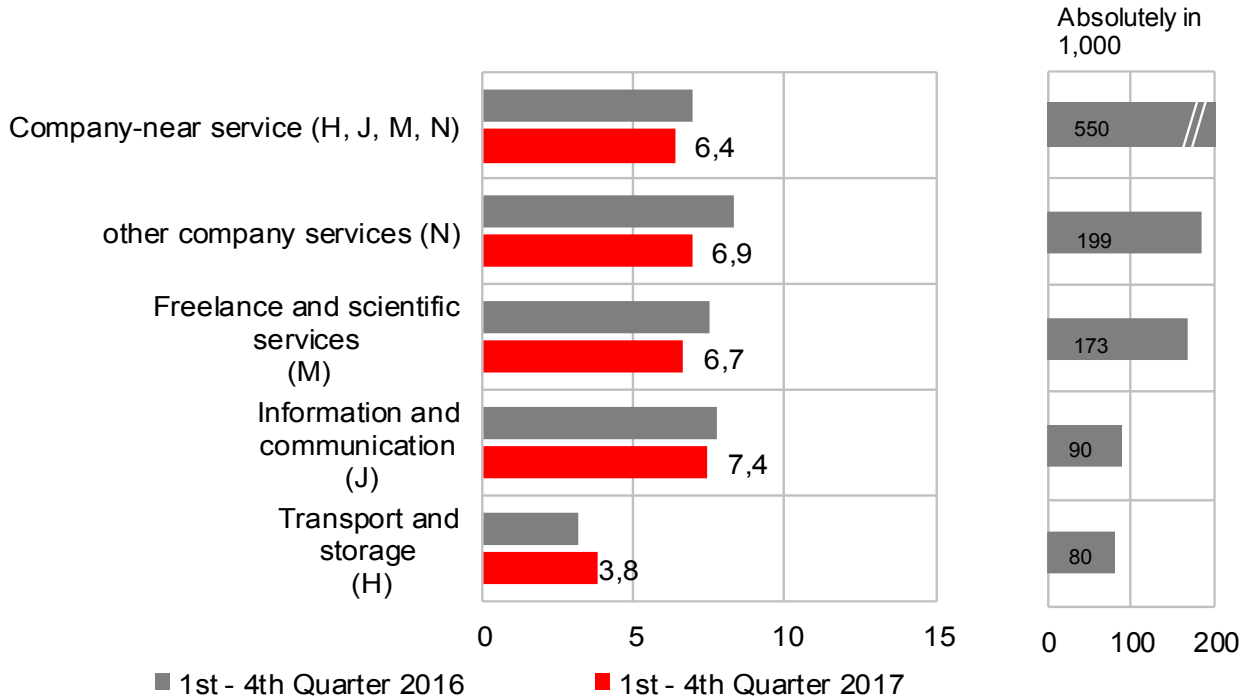
2015 = 100; seasonally/calendar-adjusted quarterly values



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

Company-near services – employment trends

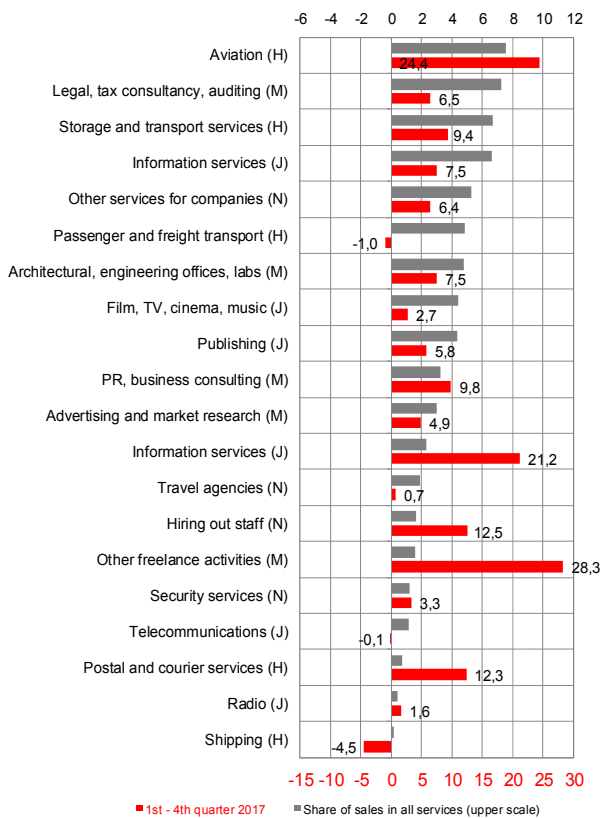
Change in % against the same period of the previous year



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

Selected services sectors – sales trends

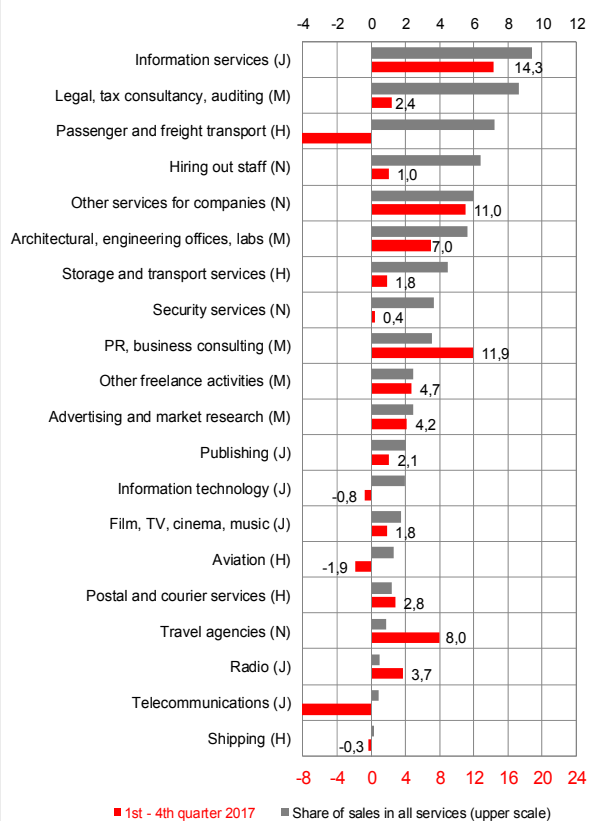
Change in % against the same period of the previous year; % share in sales



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

Generally more optimistic outlook for 2018

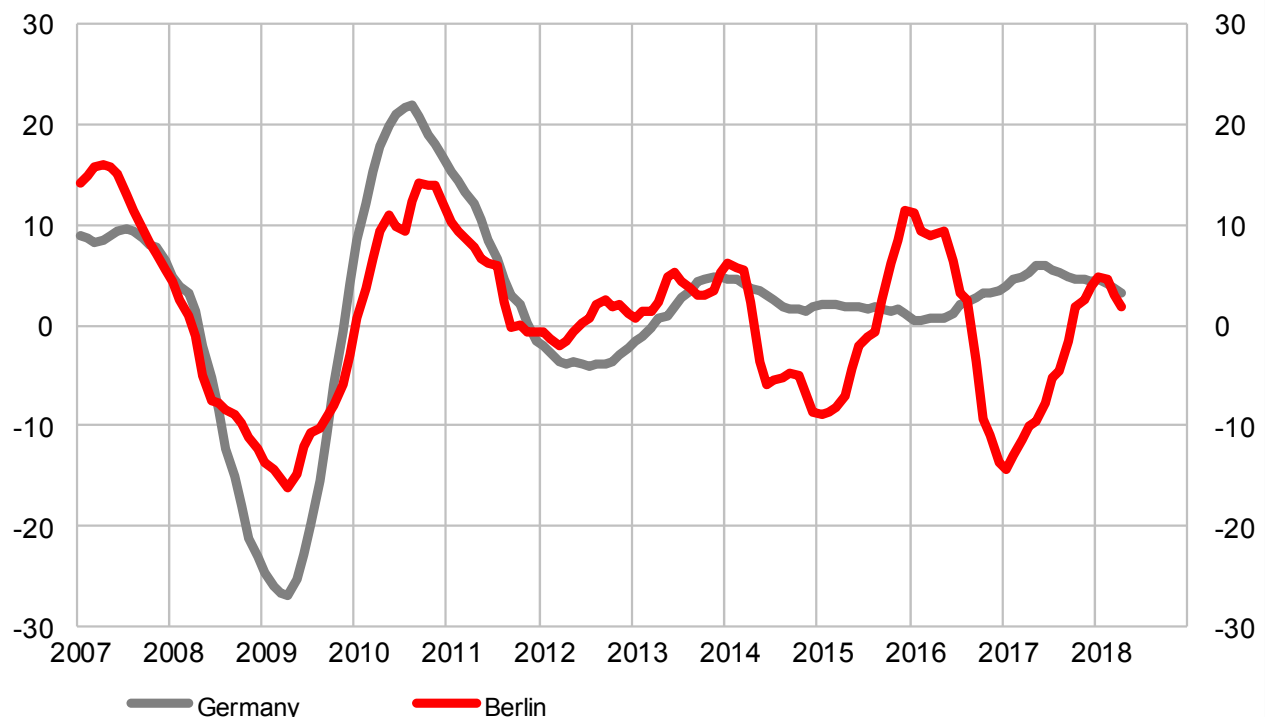
In the first two months of 2018, sales recorded by Berlin-based industrial companies were up 0.9% against the same period of the previous year. According to the Berlin-Brandenburg Statistics Office, 340 Berlin-based industrial companies in Berlin with 50 and more employees recorded sales totalling EUR 3,7 billion, EUR 1,5 billion of which was generated in Germany (+3.6%; share: 39%) and EUR 2.2 billion in foreign sales (-0.8%; share: 61%). Manufacturers of metal products (EUR +24.5 million), electrical equipment (EUR +24.4 million), printed products (EUR +17.7 million) and data processing equipment (EUR +15.8 million) recorded strong increases in sales in the period from January to February 2018. The pharmaceutical industry, Berlin's industrial sector with the highest sales (share in industrial sales: 33%), recorded stagnating sales (-0.1%). The mechanical engineering sector, which is so important for Berlin (share in industrial sales: 7.8%), reported a significant decline in sales of 11.7% (EUR -37.9 million). Due to the relatively high order intake at the beginning of the year, however, sales should begin to increase again in the second quarter.

Positive start to the year

Order intake for Berlin's industrial sector developed well in the period from January to February 2018. While orders in this period in 2017 were still 6.0% below the previous year's level, an increase in industrial orders of 3.7% was already reported in 2018. Domestic orders especially rose by 5.3%, but orders from abroad also increased noticeably (+2.7%). The decisive factor for this increase is the significant recovery by capital goods producers (+11.2%). These include mechanical engineering (+22.0%) and producers of metal products (+9.4%). The recovery in order intake and new jobs will probably secure industrial sales in the later quarters of the year. After a decline of EUR 400 million in gross domestic product in 2017, Berlin's industrial sector is likely to once again make a positive contribution to Berlin's economic growth in 2018, all the more so because conditions for international business have recently improved again due to a strong eurozone economy. The outlook for Berlin's industrial sector in 2018 is therefore generally more optimistic.

Total incoming orders – industry

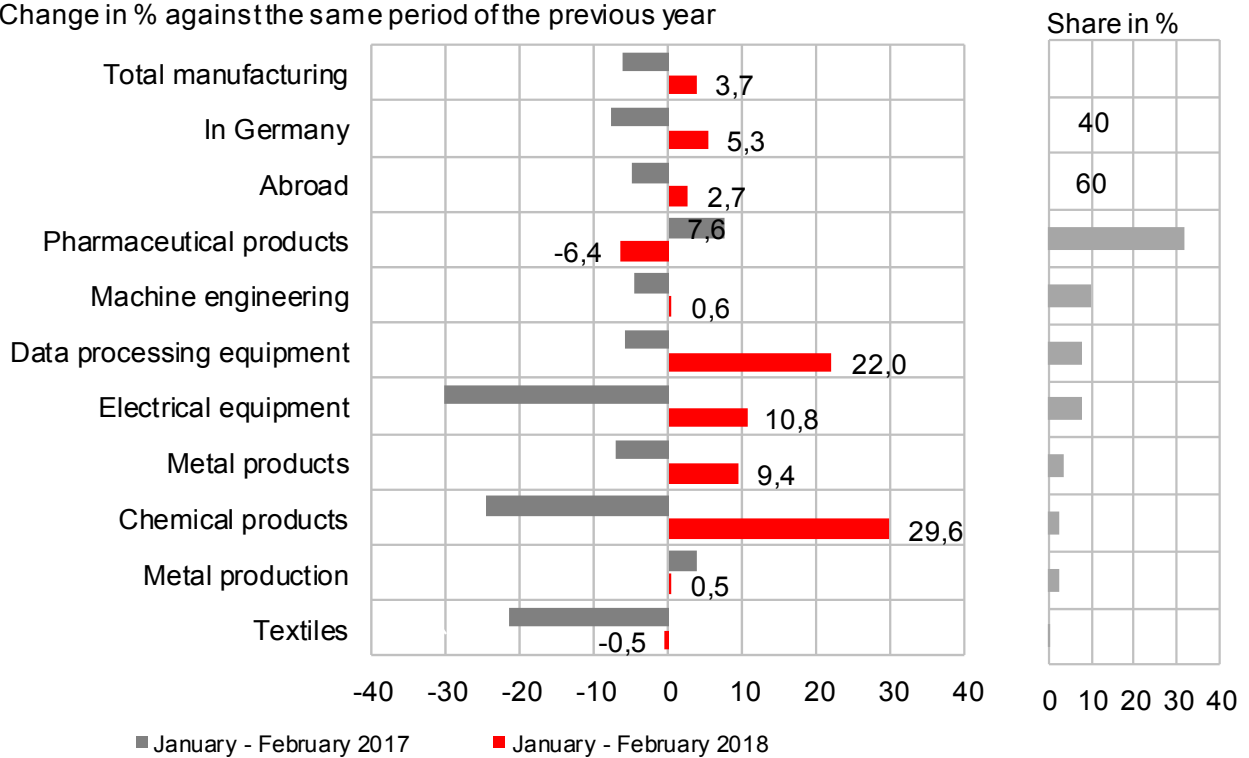
Moving 12-month average, change in % against the same month of the previous year



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

Incoming orders – important sectors of industry

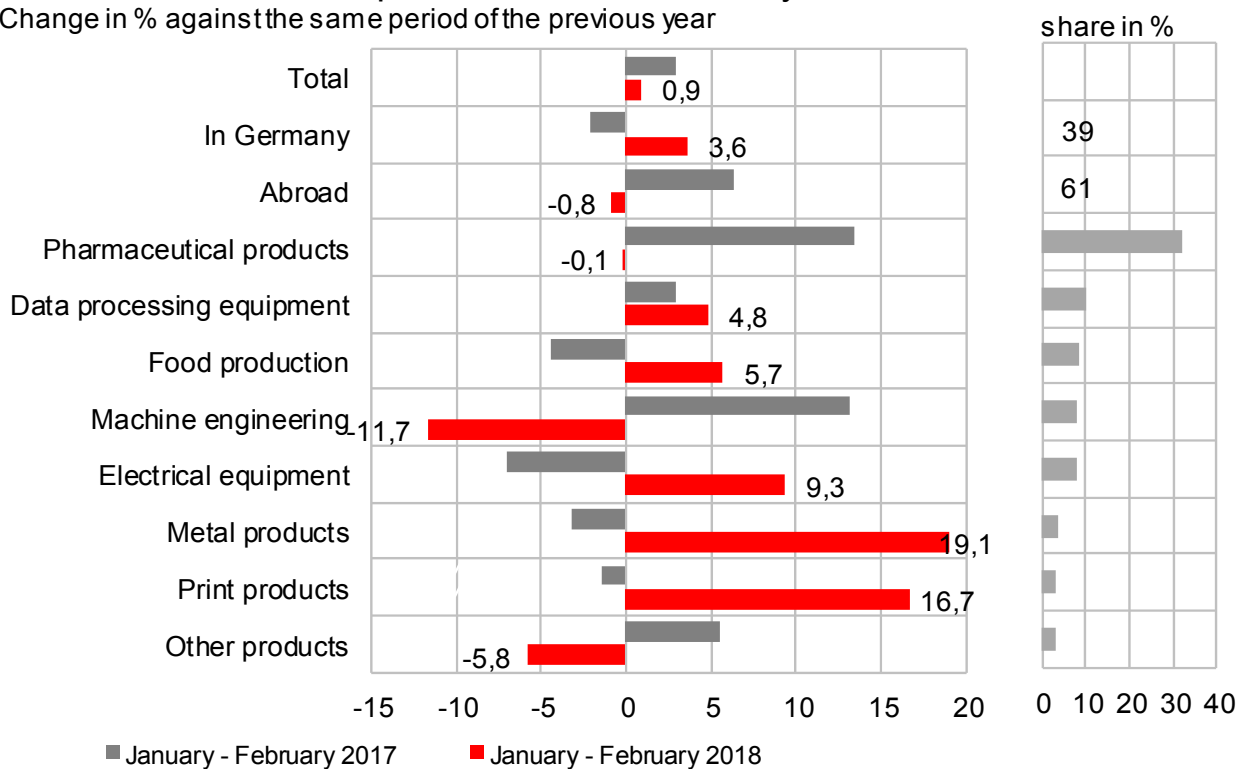
Change in % against the same period of the previous year



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

Good prospects for 2018

Sluggish foreign sales by Berlin's industrial sector are reflected in the slowdown in exports. Berlin's exports rose slightly by 1.3% over the course of 2017, after a very strong increase in the previous year (+7.6%). In January 2018, as in the same month of the previous year, export goods worth a total of EUR 1.2 billion were sold.

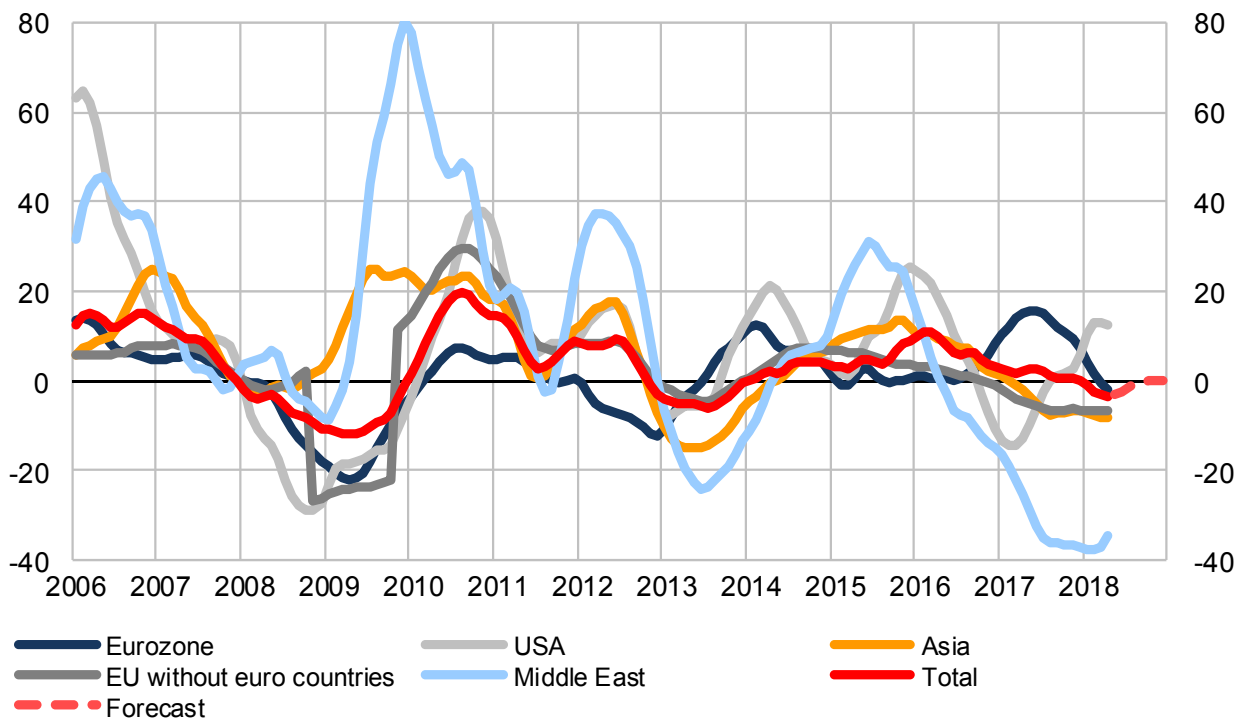
Berlin's exports to the US accounted for a large part of this figure, and goods worth EUR 193 million were exported there in January, 31.4% more than in the same period last year. For 18 years now, the US has been by far the most important export country for Berlin (share of all exports in January: 16.1%). The products from Berlin that are most in demand in the US include not only chassis and engines, vehicles and motorcycles, but also equipment for electricity generation and pharmaceutical products for which exports rose in January (+20.9 million EUR). Strong economic growth in 2018 and 2019 as well as the tax reform that came into effect in January along with an announced infrastructure programme should increase demand for capital goods in the US in the future.

Exports to China (EUR +24 million) and Switzerland (EUR +17 million) also increased in January. By contrast, there was a steep decline in exports to France (EUR -13 million) and Poland (EUR -22 million). In January, exports of tobacco products, Berlin's most important export commodity to Poland in 2017, fell significantly by 40.8%. Exports of other vehicles, which include motorcycles, bicycles and pallet trucks, were also down (-30.0%). These represented the most important product group of exports from Berlin to France in 2017.

By contrast, exports to the eurozone are at a high level (+1.4% in January), accounting for 24% of all of Berlin's exports. The eurozone is on the road to economic recovery. Continuing demand from China and the accelerated growth of many oil-producing, emerging countries should also benefit industry in Berlin. Against this background, opportunities in 2018 for exporters in Berlin are estimated to be relatively good.

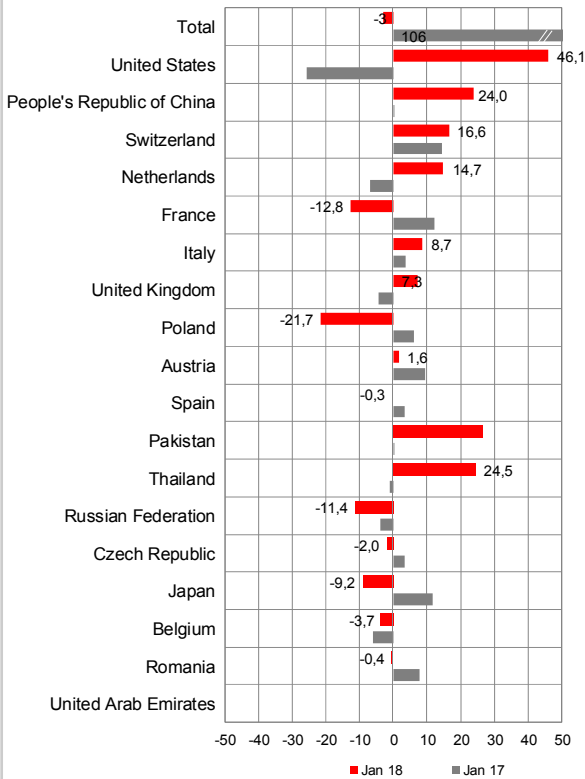
Exports

Monthly trend values, change in % against the previous year



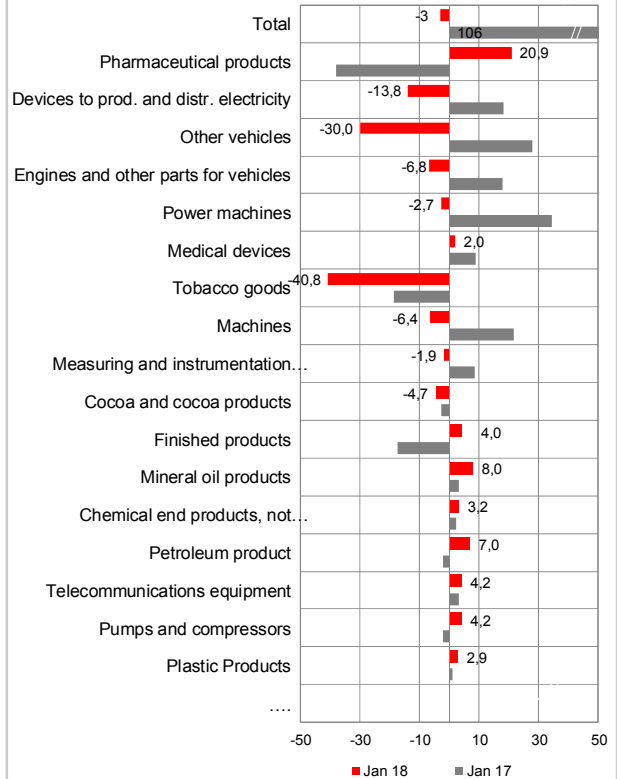
Source: Destatis, calculations by IBB

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



Source: Federal Statistical Office; calculation by IBB

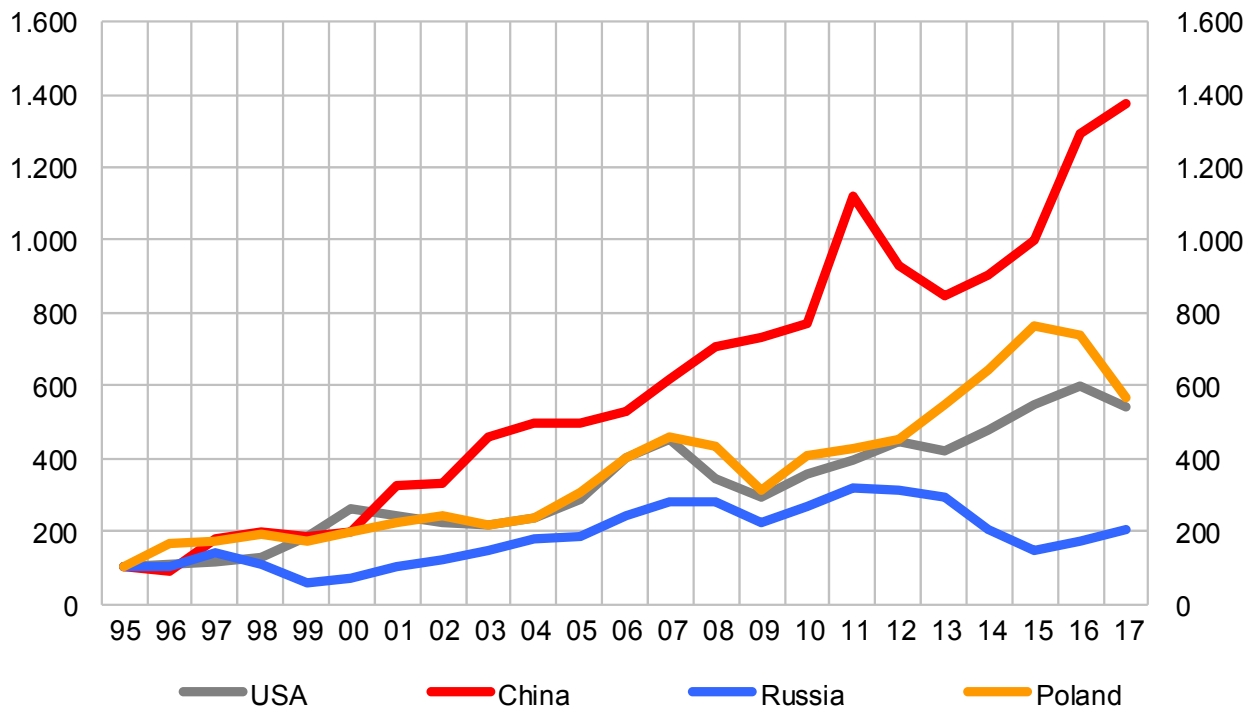
Exports: most important material groups
Change in million EUR against the previous year



Source: Federal Statistical Office; calculation by IBB

Exports to selected countries

1995 = 100



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

Main construction trades

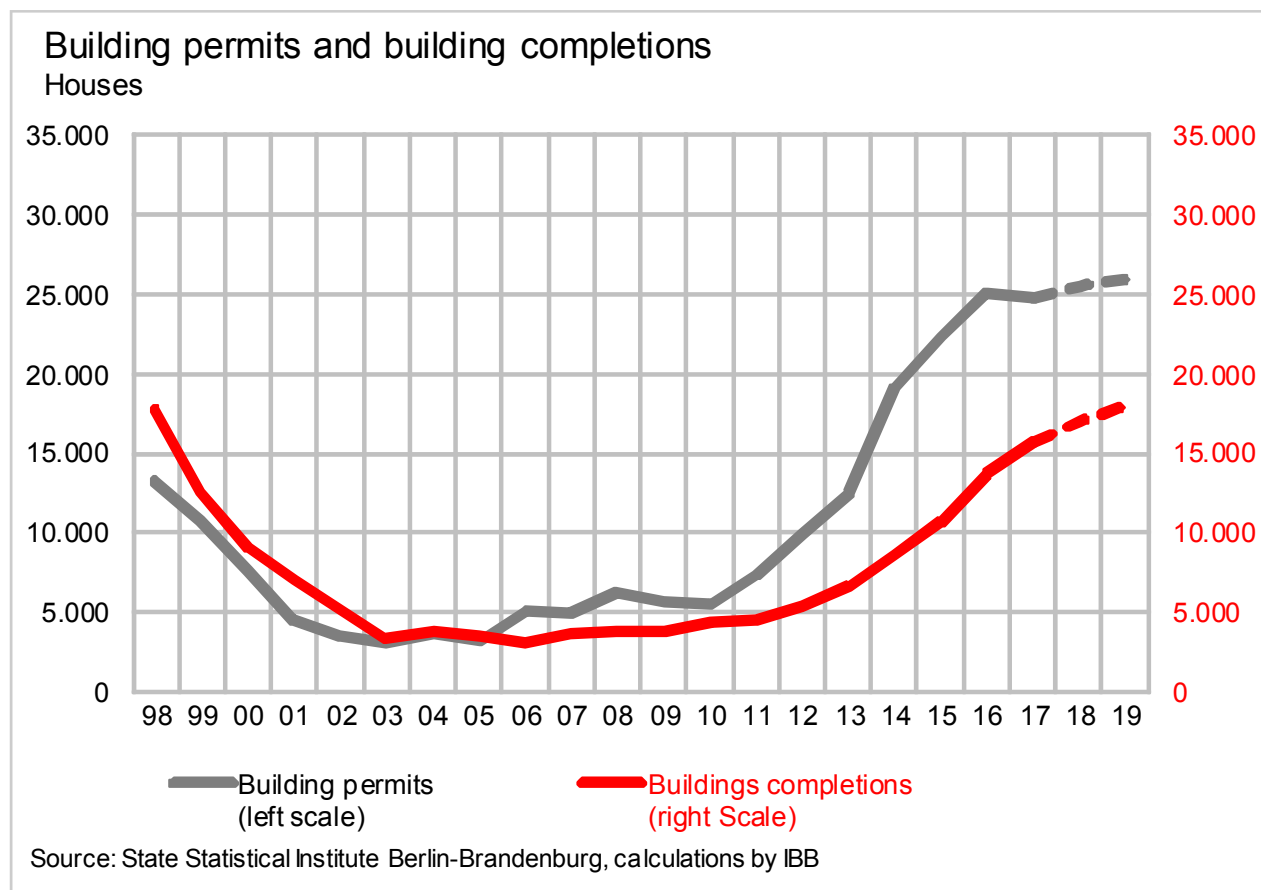
Building permits on the rise again

More apartments are urgently needed in the German capital. Since 2011, 40,000 people on average have been moving to Berlin each year. At least 20,000 new apartments would be needed each year. Although building permits for new residential construction rose again in January 2018 (+57.0% to 1,660), following a weak overall year in 2017 (-1.3% to 24,743), only 13,659 new apartments were in fact completed in Berlin in 2016. Around 16,500 or 18,500 apartments, respectively, are due to be completed in 2017 and 2018. Due to the continuing overutilisation of Berlin's construction capacities, it is no longer possible to accept every new order. In 2017, order intake fell by 5.4% to EUR 2.5 billion. This applies in particular to residential and commercial construction, where order intake fell by 11.6% and 11.8%, respectively. By contrast, public construction rose by 24.0% to EUR 581 million. However, the current year began with a strong year-on-year increase with new orders up by 39.3% to EUR 233 million in January. This increase was mainly driven by high-volume residential construction (+134.7%), but public construction also recorded an increase in new orders (+32.7%). The

decline in commercial construction (-17.6%) can be explained by the relatively strong month of the previous year.

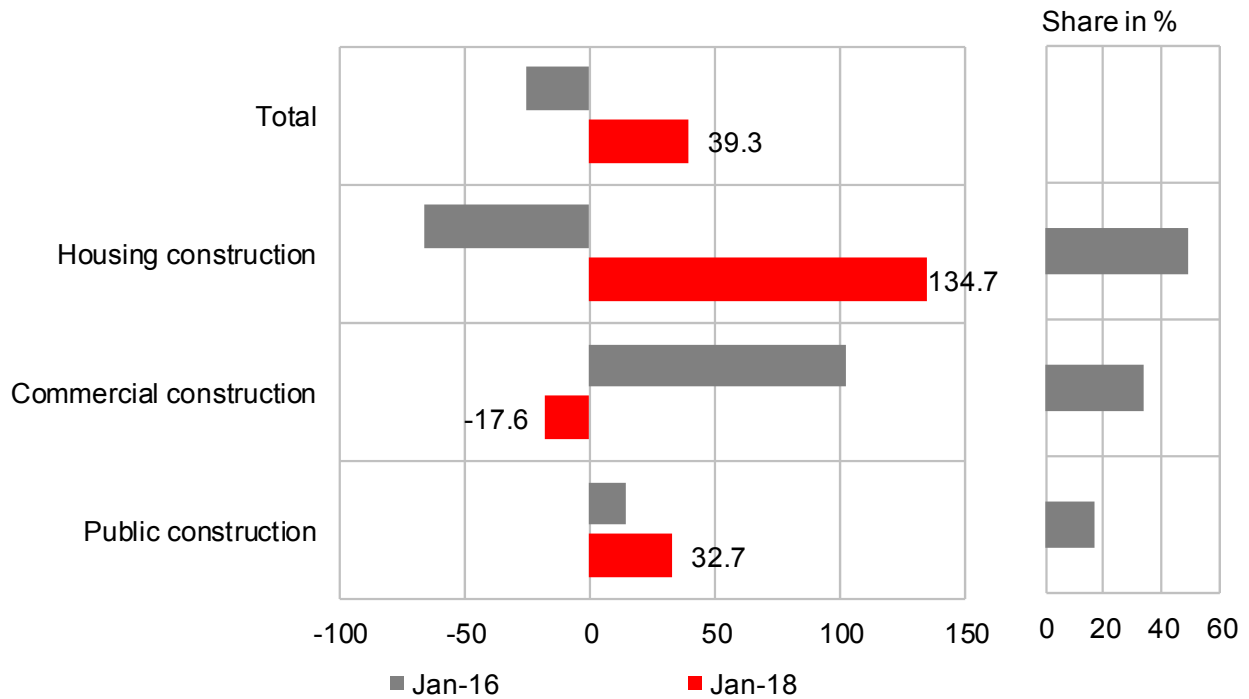
Construction turnover benefits from strong demand

In 2017, the number of people employed in the construction industry rose by 7.2% to 23,229 at 2,199 companies. At the beginning of 2018, the number fell to 20,620 (-4.2% against the previous year), partly due to seasonal effects. At EUR 3.0 billion, sales in the construction industry in January 2018 were significantly higher than in the previous year (EUR +82.0 million). In the finishing trades, sales of EUR 1.9 billion were generated in 2017, 4.0% more than in the previous year. The financial conditions for residential construction in Berlin will remain favourable once again in 2018. For example, earnings in Berlin will rise disproportionately compared to the rest of Germany and mortgage interest rates will remain low. The fact that demand for residential space in Berlin exceeds supply is reflected by rising rents and purchase prices, and this trend will continue in 2018.



Incoming orders - Main construction trades

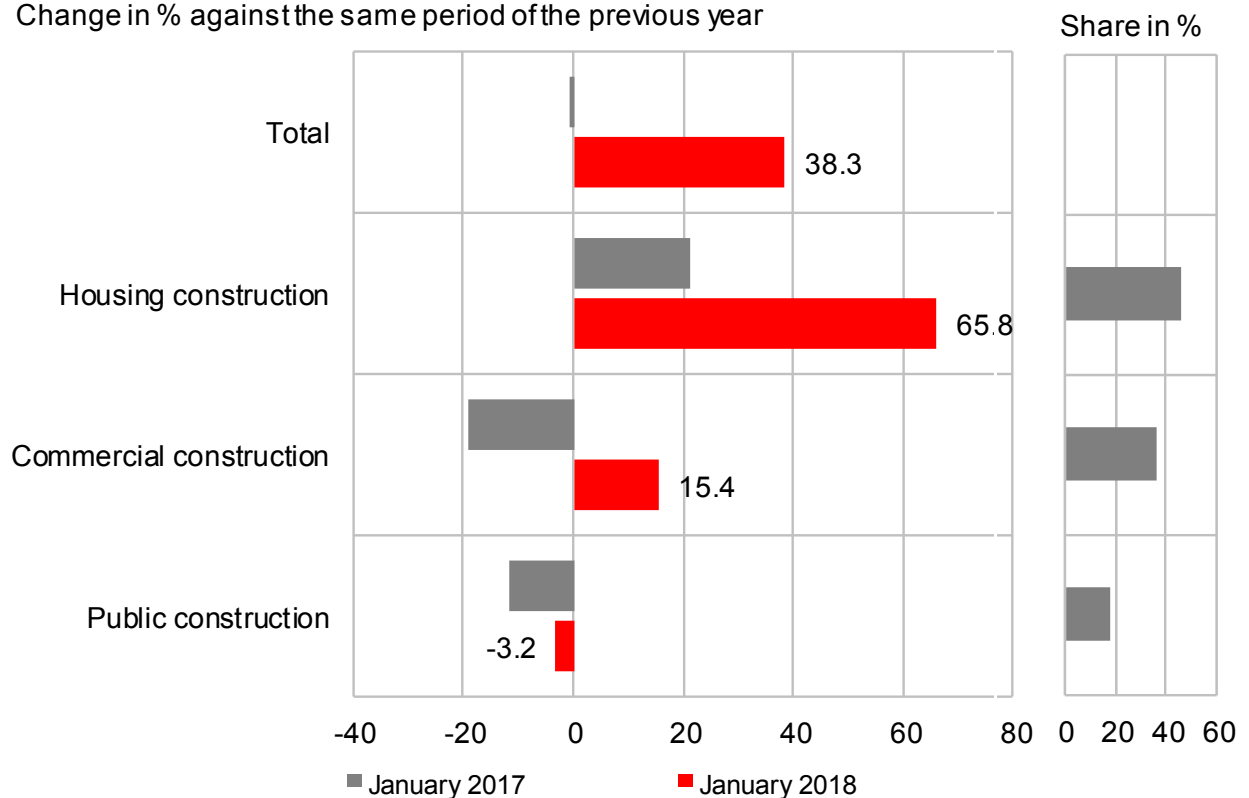
Change in % against the same period of the previous year



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

Step up in growth rate

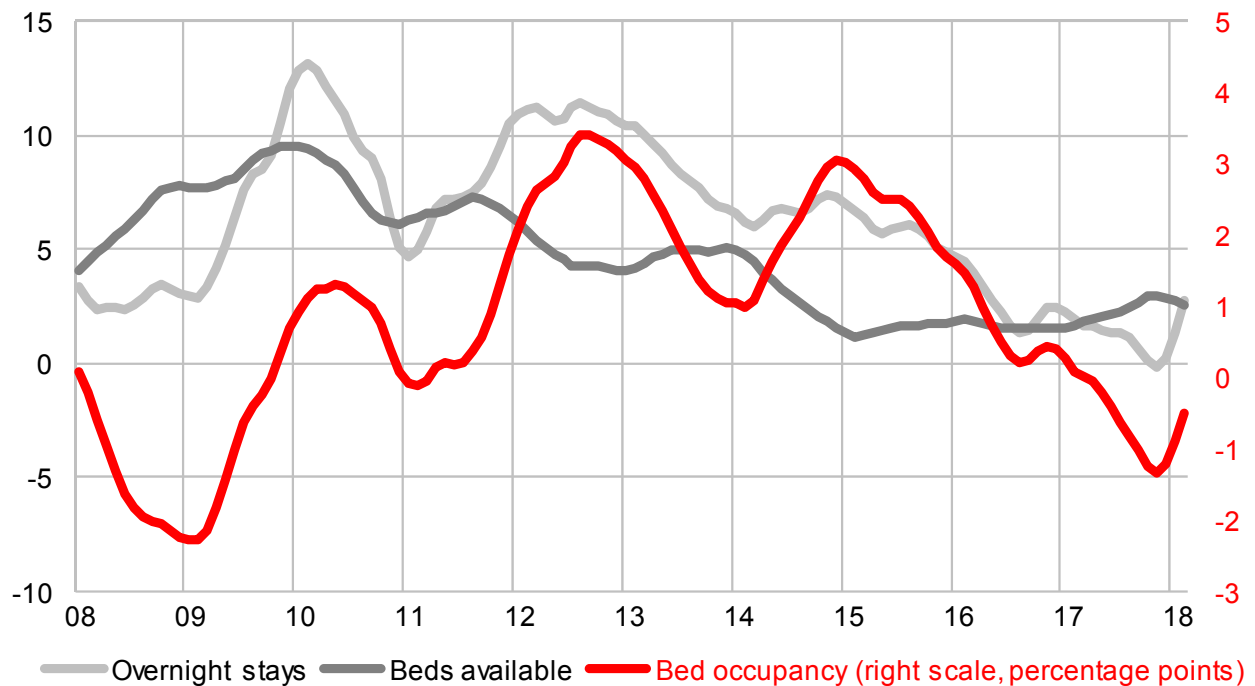
The number of guests reported by Berlin’s accommodation sector rose to 1.7 million in the first two months of 2018 which are traditionally the weakest months of the year for tourism. This represents an increase of 5.6% compared to the same period last year and marked a positive start to 2018 after the rather moderate annual rate of just 1.8% recorded in 2017. All in all, 93,000 more visitors checked into Berlin’s hotels in the first two months of the year. These were increasingly German guests (+6.5%; 82,000). The formation of a government at the beginning of the year, in particular, led to more journalists, political party members, lobbyists and government representatives travelling to the German capital. The increase in the number of guests also meant an increase in the number of overnight stays. At the beginning of 2018, 4.1 million overnight stays were recorded, around 155,000 more than in the same period last year (+3.9%). The significant increase in the number of overnight stays put an end to the downward trend in bed occupancy at Berlin’s 784 accommodation facilities. In February, the occupancy rate of 47.8% for close to 145,000 beds

was almost at the same level as in the same month of the previous year.

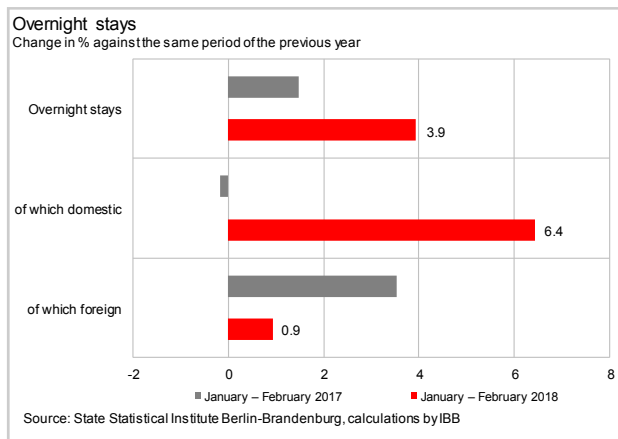
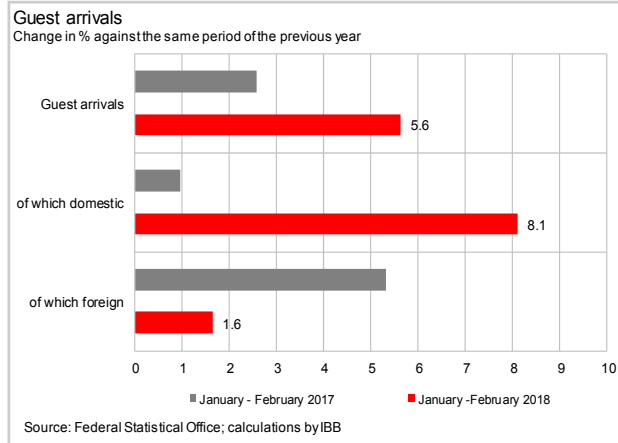
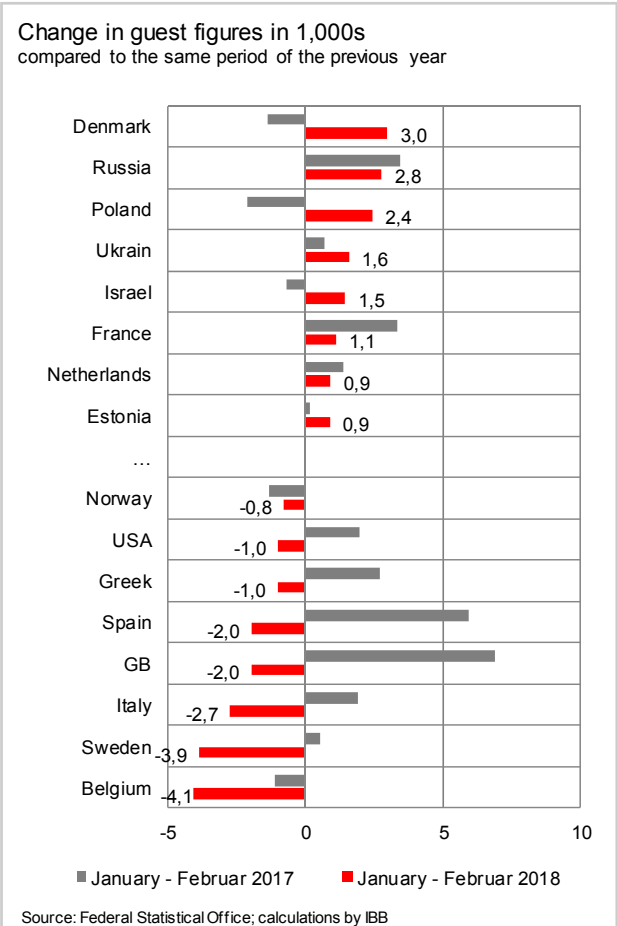
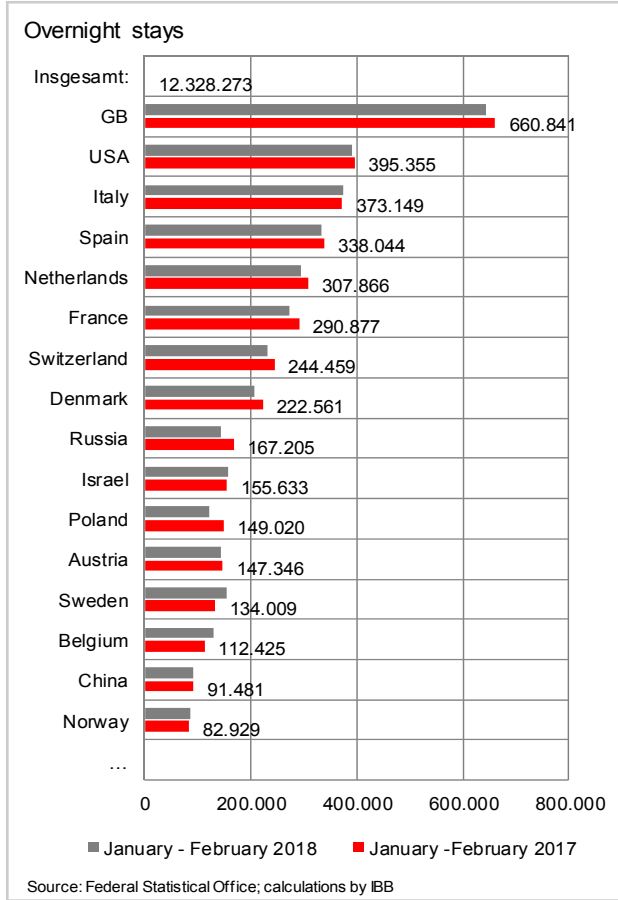
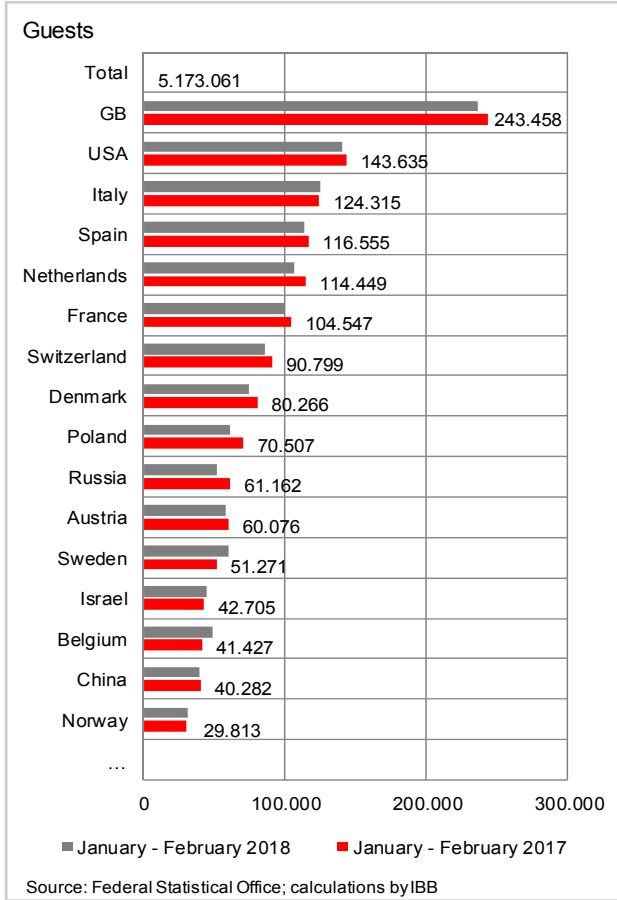
Only close to 16,000 of the 155,000 additional overnight stays compared with the same period last year are attributable to foreign guests, above all from Denmark (+8,800) Israel (+7,800)) and Poland (+7,500). One reason for the rather moderate growth rates in overnight stays by foreign guests is, among other things, the smaller number of airlines offering flights to Berlin. In recent months, up to 90 of the 140 aircraft of Berlin’s bankrupt airline have remained on the ground. Some routes were no longer served by the competitors who had taken over the slots, or were completely cancelled. As a result of the airline’s bankruptcy, air fares have also risen, and this has hit tourist figures in the lower price segment in particular. The number of guests in 2017 was down (-2.3%), especially in hotels with less than 100 beds, and this was particularly the case with foreign guests whose number declined by as much as 3.5%. However, the number of flights to and from Berlin will probably stabilise again in the coming months and as a result the outlook for tourism should brighten again in 2018.

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

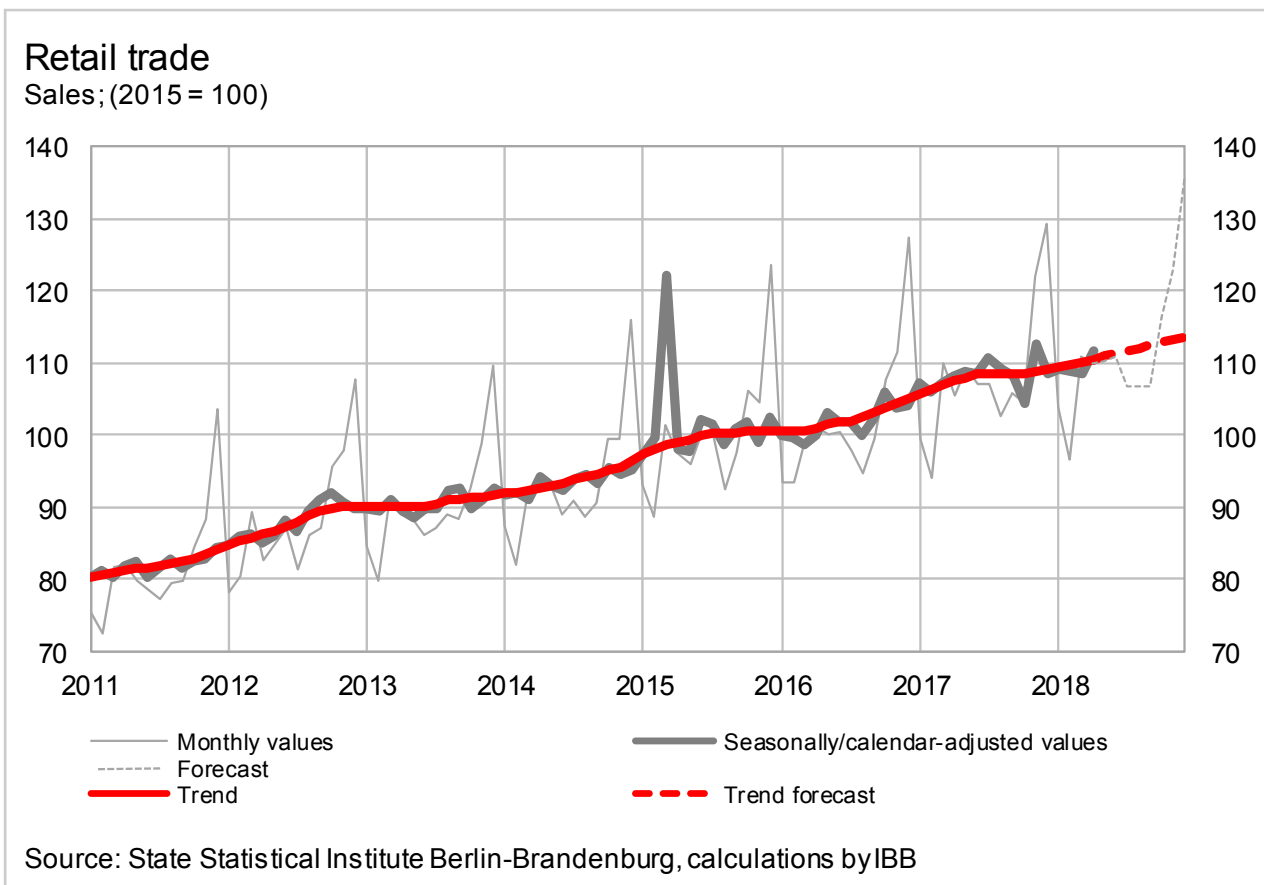
Strong 5.6% increase in sales

According to preliminary calculations by the Statistical Office for Berlin-Brandenburg, last year's price-adjusted sales figures for Berlin's retail sector increased by 5.6% compared to the same period of the previous year. This means that Berlin's retail sector is growing more than twice as fast as the national average (Germany: +2.2%).

The decisive factors for growth in Berlin's retail sector are the city's population, which has been growing for years by an average of more than 40,000 people each year, as well as rising tourism figures. However, the strongest momentum now comes from online and mail order business. In recent years, many business models were established in Berlin as innovative start-ups and are now operating on an international scale. In the field of online retail business, revenues rose by 14.7% (Germany: +7.5%). Traditional specialist retailers for household appliances and DIY were also up by a strong 3.7% in the wake of booming new construction and expansion of apartments in Berlin (Germany: 0.3%).

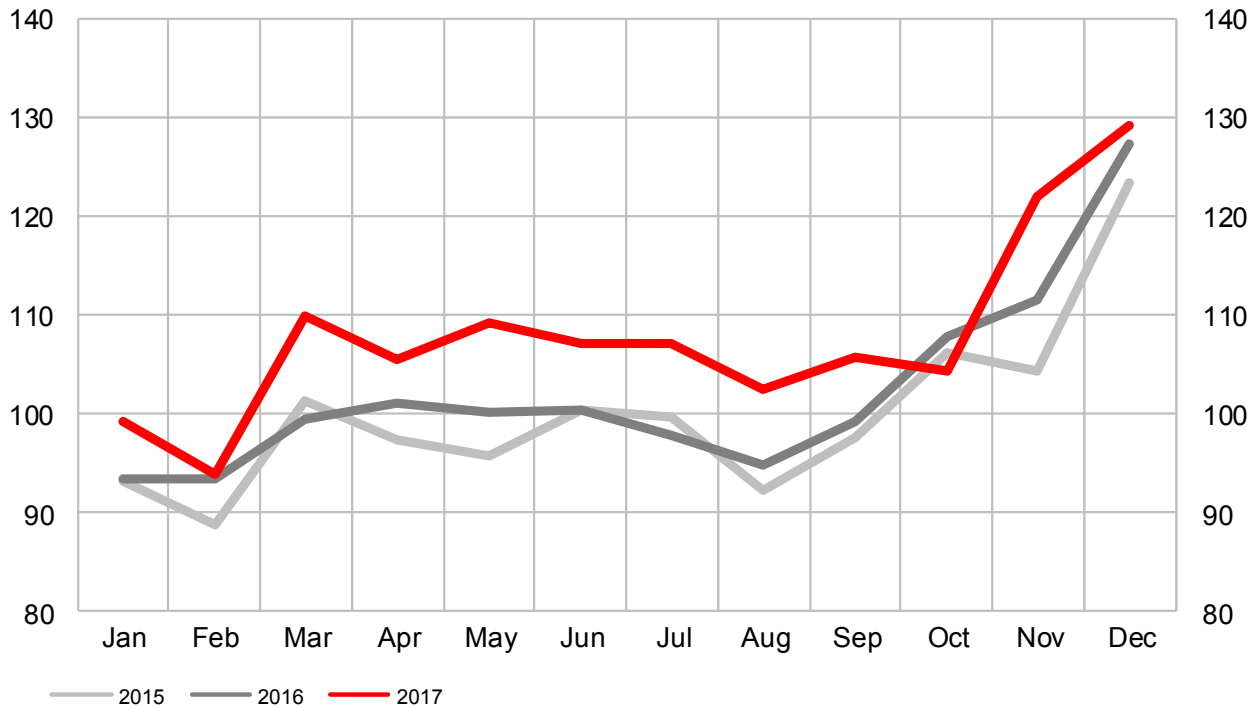
The number of people working in the retail sector rose by 3.7% in 2017. In light of ever-fewer people looking to work in retail, part-time jobs accounted for a large part of these jobs (+5.2%) but full-time employment also rose slightly (1.7%). In 2017, more people were hired most notably by online and mail-order retailers. The number of people employed in digital retail business was up by 10.3%.

Economic development in Berlin continues to be dynamic and the number of people in jobs will continue to grow in 2018 at a rate that is above the national average. Conditions for consumers have not been this good for quite some time now. For the past four years, employees in Berlin have had more money in real terms in their household budgets. Wages in Berlin, for example, rose by a price-adjusted 1.2% in 2017 (Germany: 0.7%). Since the influx to Berlin is likely to flatten out at a slow pace only in the coming months while tourism is likely to increase, the retail sector will continue to make a positive contribution to gross value added in 2018.



Retail trade

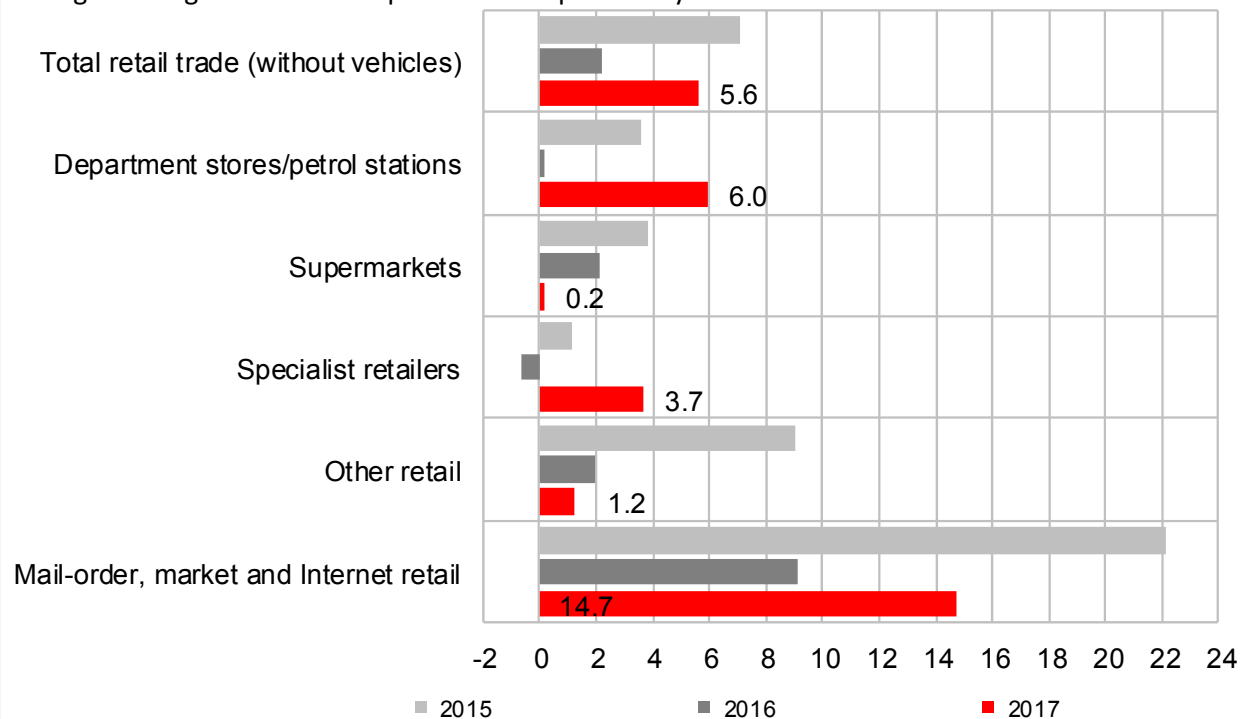
Sales; (2015 = 100)



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

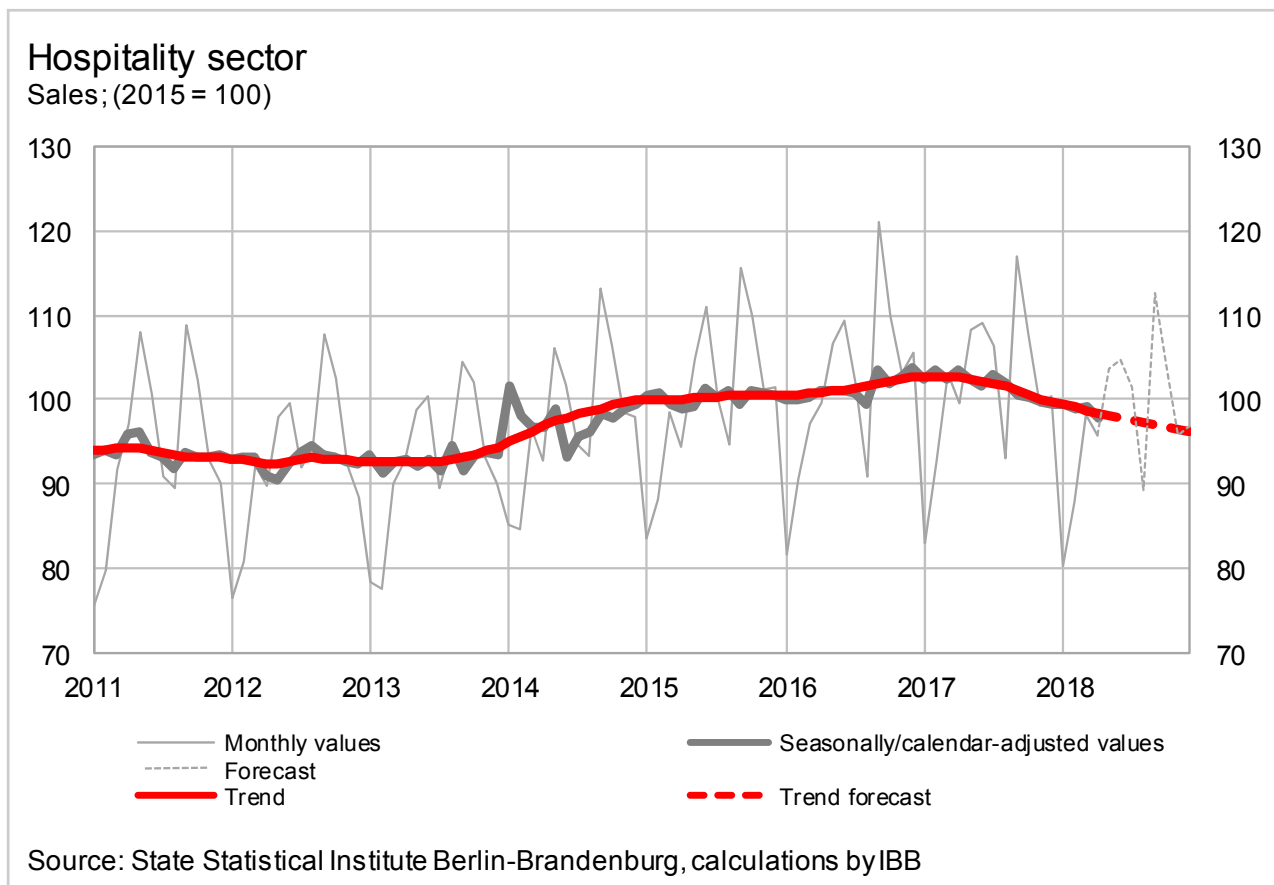
Only a marginal 0.1% increase in sales

According to preliminary figures from the Berlin-Brandenburg Statistics Office, sales generated in 2017 by Berlin's hospitality sector (consisting of the accommodation and food service sectors) rose only marginally by 0.1% compared to the previous year (Germany: +1.1%).

Although sales recorded by hotels, inns and B&Bs in Berlin increased by 1.8% (Germany: +0.8%), the bankruptcy of Air Berlin has already left its mark on official statistics. There were significant declines both in the price-sensitive categories of smaller hotels (rising air fares) and in the 5-star hotel category, where trips were cancelled due to fewer flights. Even if Berlin recorded fewer foreign guests in recent months, domestic tourism has risen significantly due to the formation of the new German government in Berlin, so that sales in the accommodation sector have at least stabilised. Berlin's food service sector reported a decline of

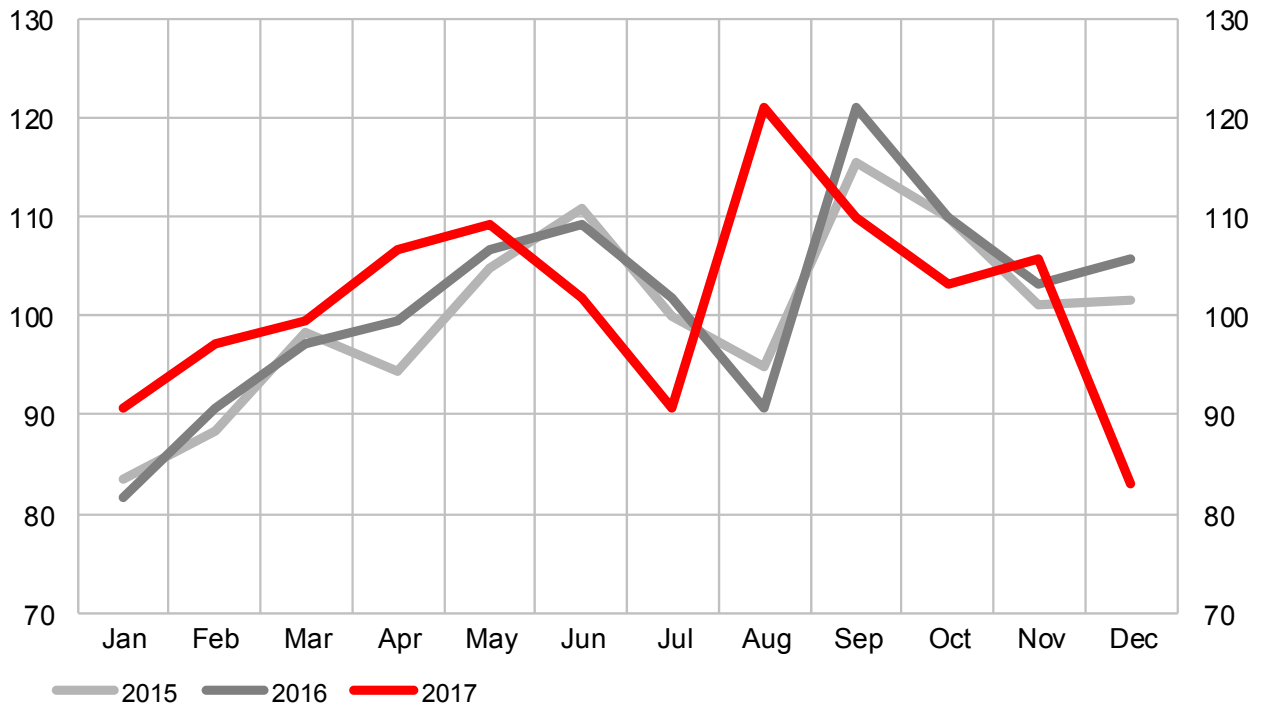
0.1% in sales for the past year (Germany: +1.3%). While sales by restaurants, pubs, snack bars, cafés and ice cream parlours fell by 0.4%, caterers were able to up their sales by 1.8%. In addition to organising numerous events in the capital city, caterers also benefit from growing demand from kindergartens, schools, refugee facilities and universities. With the number of guests increasing at the beginning of the year, sales in the food service sector should recover in the course of 2018.

The number of people working in the hospitality sector rose by 0.6% in 2017. However, developments in the individual areas of the hospitality sector varied. Employment increased significantly (+2.9%), especially in Berlin's hotels, inns and B&Bs. Restaurants, however, recorded a decline in jobs (-2.4%) due to only moderate sales growth. On the other hand, employment in the catering sector rose significantly by 9.0%.



Hospitality sector

Sales; (2015 = 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

Business registrations defy the trend

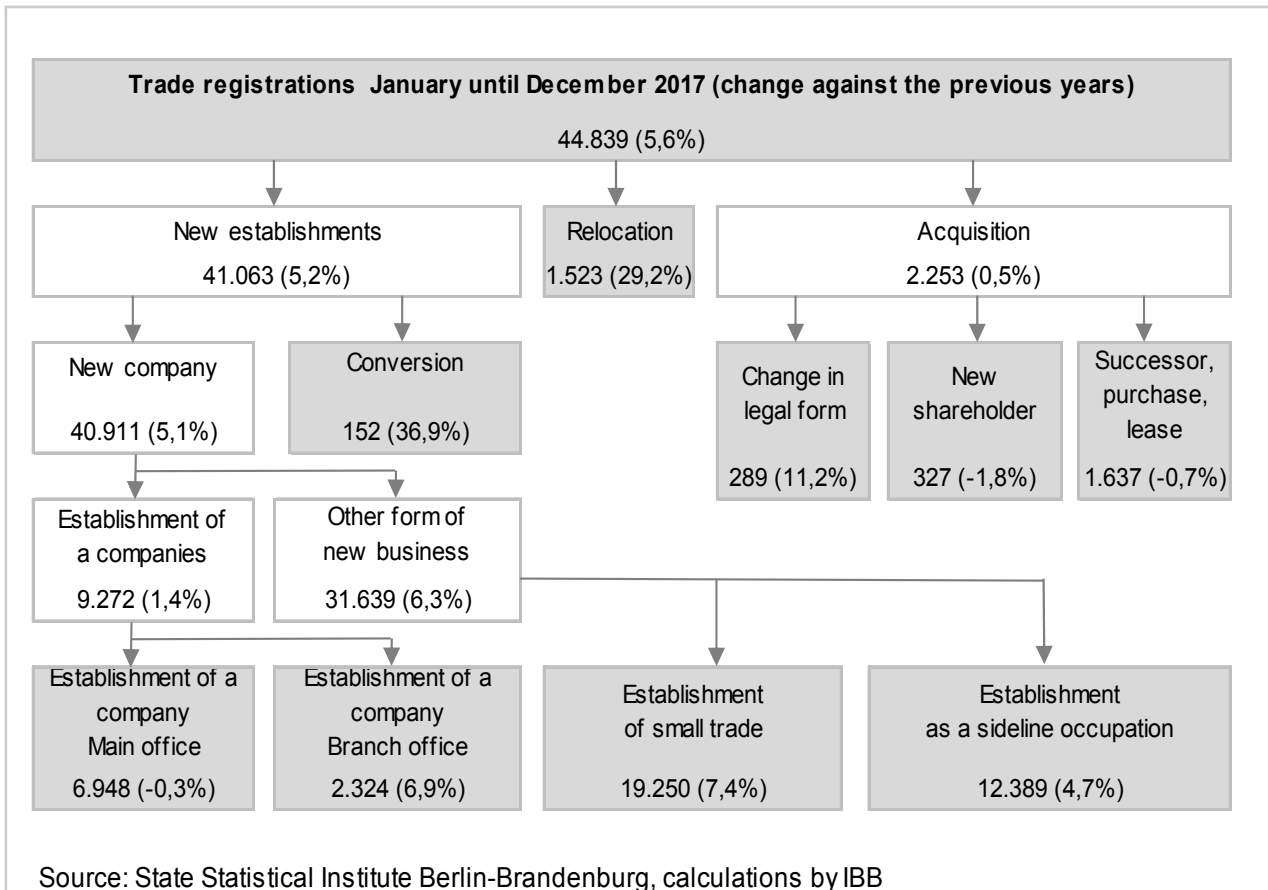
In 2017, 44,839 companies were registered with Berlin's trade licensing offices. This was around 1,500 more than in the previous year and the highest growth rate (+4.5%) compared to all other federal states. Business registrations in Berlin hence defied the trend for the rest of the country (-1.2%).

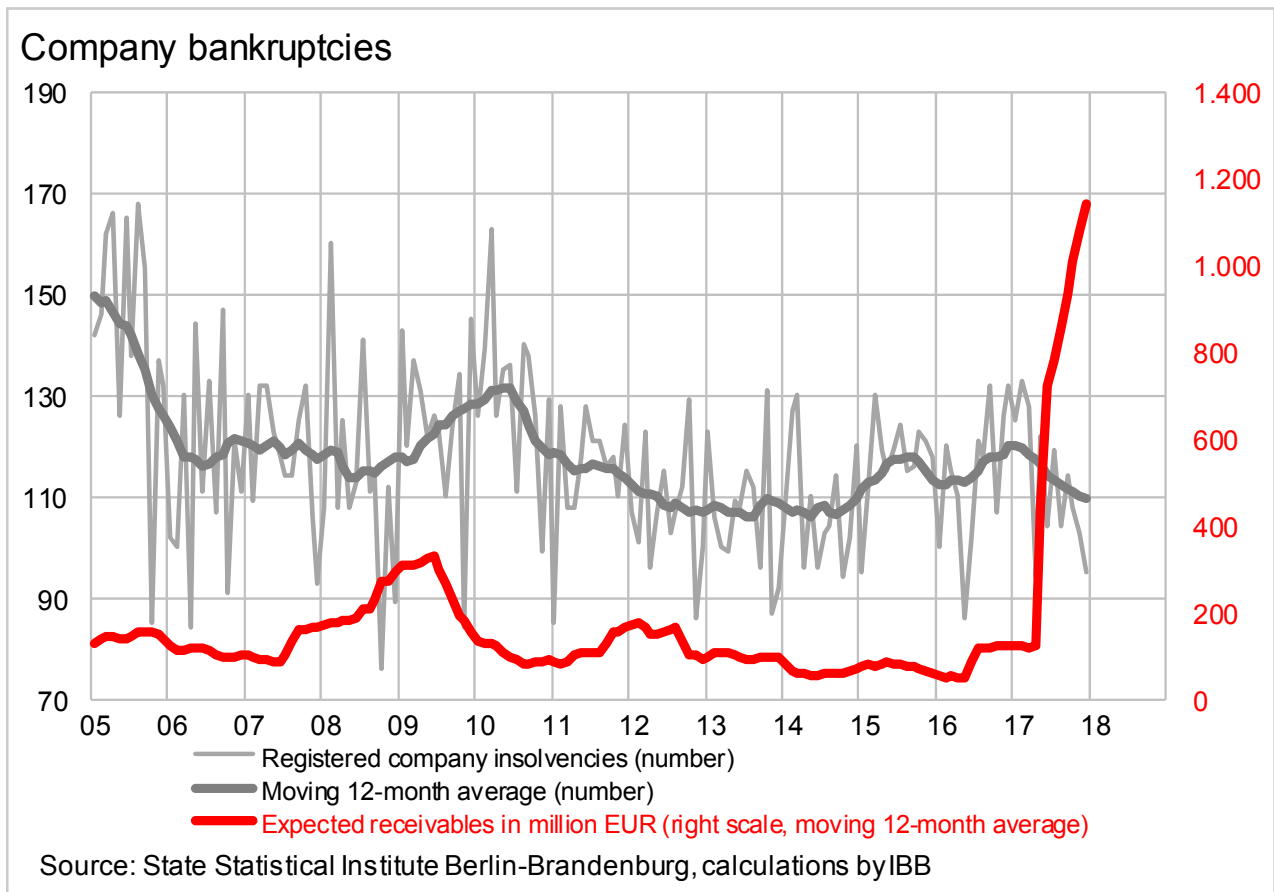
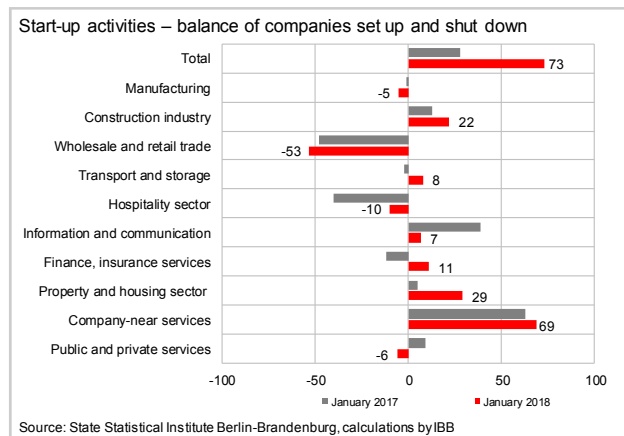
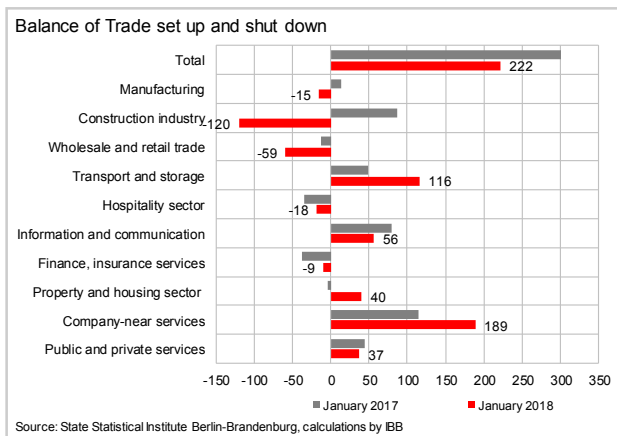
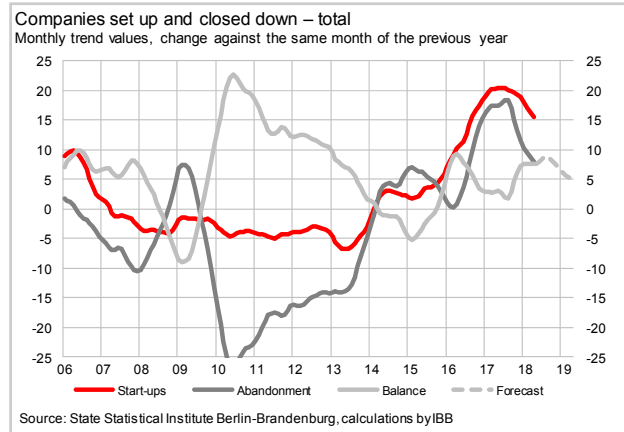
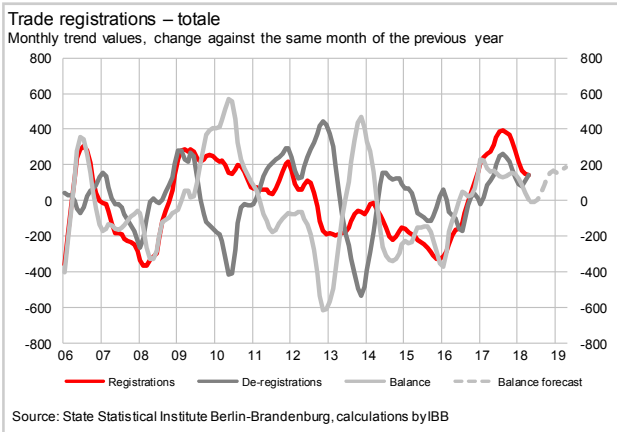
In January 2018, however, business registrations in Berlin fell slightly by 1.1% to 4,040. At the same time, only 3,818 businesses were deregistered at the beginning of the year, leaving a positive balance of 222 more business registrations. By contrast, the number of so-called start-ups increased significantly in the first month of the year by 4.6% to 838 compared the same month last year. These start-ups are commercial enterprises which at the time of registration can already be seen to be of significant economic importance. After all, 75% of these companies are corporations with particularly good conditions for job creation. At the beginning of the year, companies were mainly established in trade (169), hospitality (115) and in the fields of scientific and technical services (113) as well as information and communication (62).

Steep increase in insolvency claims

In 2017, the number of company insolvencies fell slightly against the previous year by 20 to 1,349 (-1.5%). In January 2018, a decline of 4% to 120 insolvencies was once again reported. More meaningful than the number of insolvencies for 2017, however, is the volume of creditors' claims against insolvent companies. This rose by 507% to a record EUR 8.3 billion, mainly due to the bankruptcy of Berlin's largest airline.

In January 2018, most insolvencies were related to construction (21), retail and motor vehicle repair (17) as well as hotels and restaurants (11). But 16 companies also had to close shop in January in the information and communication sector; nine more than in the same month last year. Due to the high start-up dynamics of recent years, however, the rise in bankruptcy figures comes as no surprise. Given the large number of start-ups, especially in the digital economy, not every concept can work. If companies financed with venture capital, fail to reach predefined targets, such as the number of users or market penetration, further growth financing is very quickly denied and this usually forces these companies out of business immediately. Losses like these are, however, priced in by venture capitalists in their portfolios from the outset.





Labour market

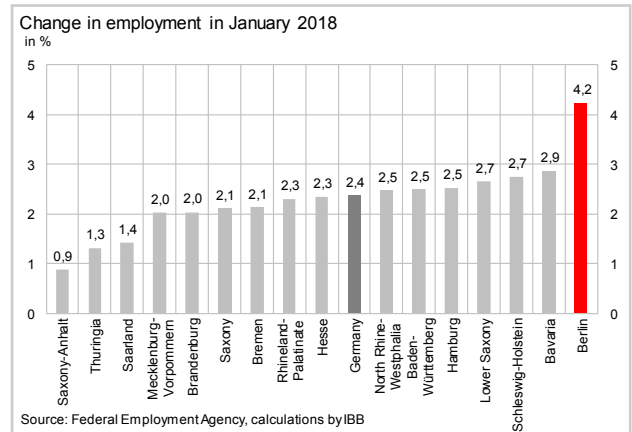
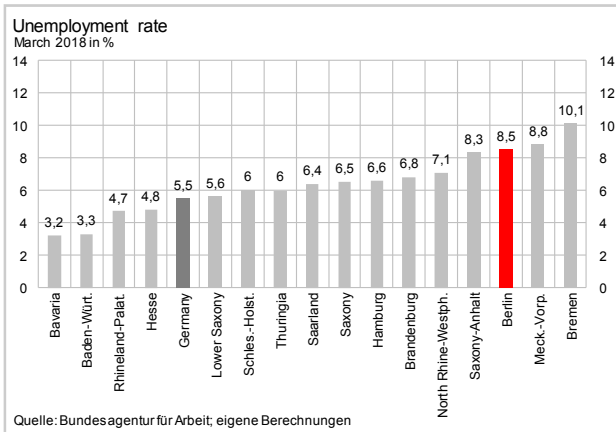
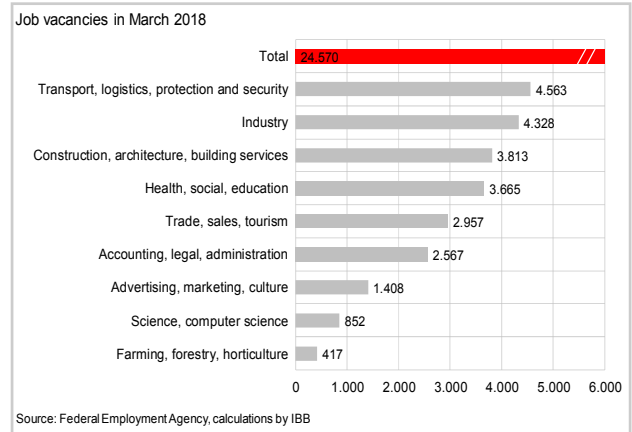
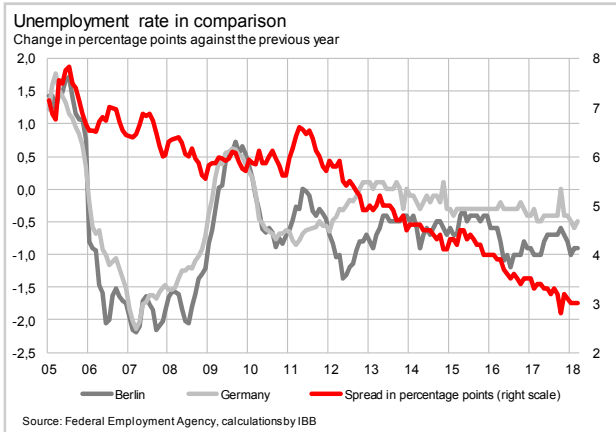
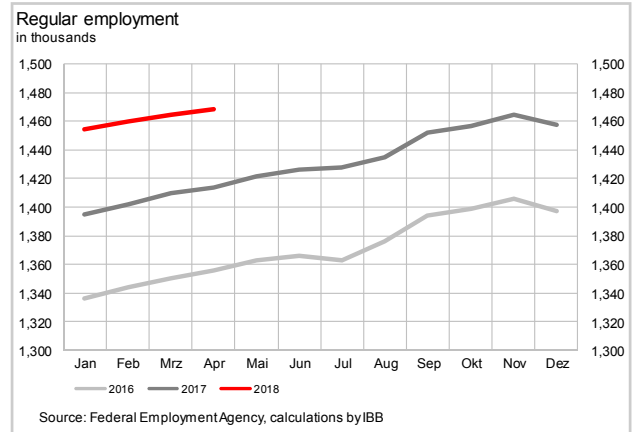
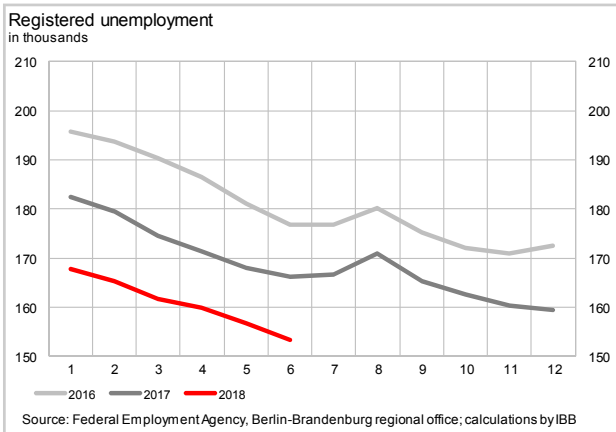
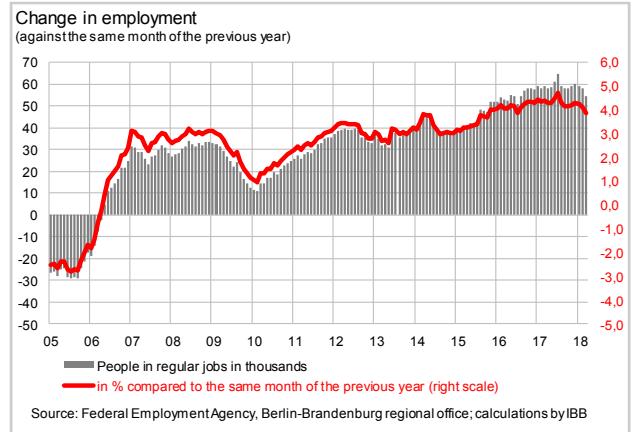
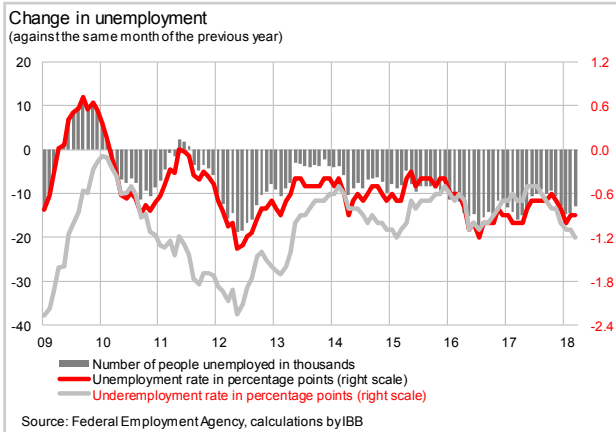
Excellent start into the 1st quarter of 2018

Berlin's labour market hit the ground running in the first quarter of 2018. At the beginning of 2018, the number of people in regular jobs increased once again significantly against the previous year by 59,716 to 1.45 million. With a growth rate of 4.2%, Berlin is at the top of all federal states, close to two percentage points above the German average. Over the past three years, the number of people in regular jobs in Berlin has risen by close to 170,000.

Companies still have high demand for employees. Skilled employees are in demand in all sectors, especially, however, in the field of information and communication where wages are particularly high. Compared to the previous year, 8,799 additional jobs have been created here. Every seventh new job in Berlin is created in this future-orientated sector. But there were also 8,046 more jobs recorded in real estate, scientific and technical services. This employment boom is not expected to slow down in 2018 either. According to the current survey of the 60 member associations of UVB Berlin-Brandenburg (*that is Unternehmensverbände*

Berlin-Brandenburg), confidence remains high in many sectors of industry, but also in the construction and retail sectors and in the trades. However, the shortage of skilled workers is now seen as a serious obstacle to business development. Although Berlin's labour market is developing at an extremely rapid pace, 162,000 people were still registered as unemployed in March 2018. This corresponds to an unemployment rate of 8.5% (Germany: 5.5%). If, however, the number of people undergoing vocational integration or continuing vocational training is also included, the number increases to 233,000 underemployed people. At the same time, just under 24,600 vacancies were registered with the job centre (*Agentur für Arbeit*) in March alone. The gap between Berlin's employment rate and the national figure fell from 7.8 percentage points at the peak (May 2003) to 3.0 percentage points in March 2018. This gap is likely to become smaller. However, due to higher frictional and structural unemployment, base unemployment in Berlin will probably also be at least 1.5 percentage points above the German average in the medium term.





Taxes and loans

Record revenues in the 1st quarter of 2018

The overproportional rise in employment figures and sales for Berlin-based companies is leading to record-level revenues for the Federal State of Berlin. Tax revenues before tax distribution rose by EUR 672 million to EUR 2.6 billion (+9.4%) in the first quarter of 2018 compared to the same quarter of the previous year, the highest figure ever measured in a first quarter.

There were significant increases, above all, in corporate income tax (EUR +254 million), which doubled to half a billion euros in the first three months, and in income tax (EUR +246 million, +9.3%). Trade tax also rose significantly by EUR 114 million to EUR 569 million (+25%). The Federal State of Berlin will also achieve a clear surplus in 2018, so that debt can be reduced and necessary investments made.

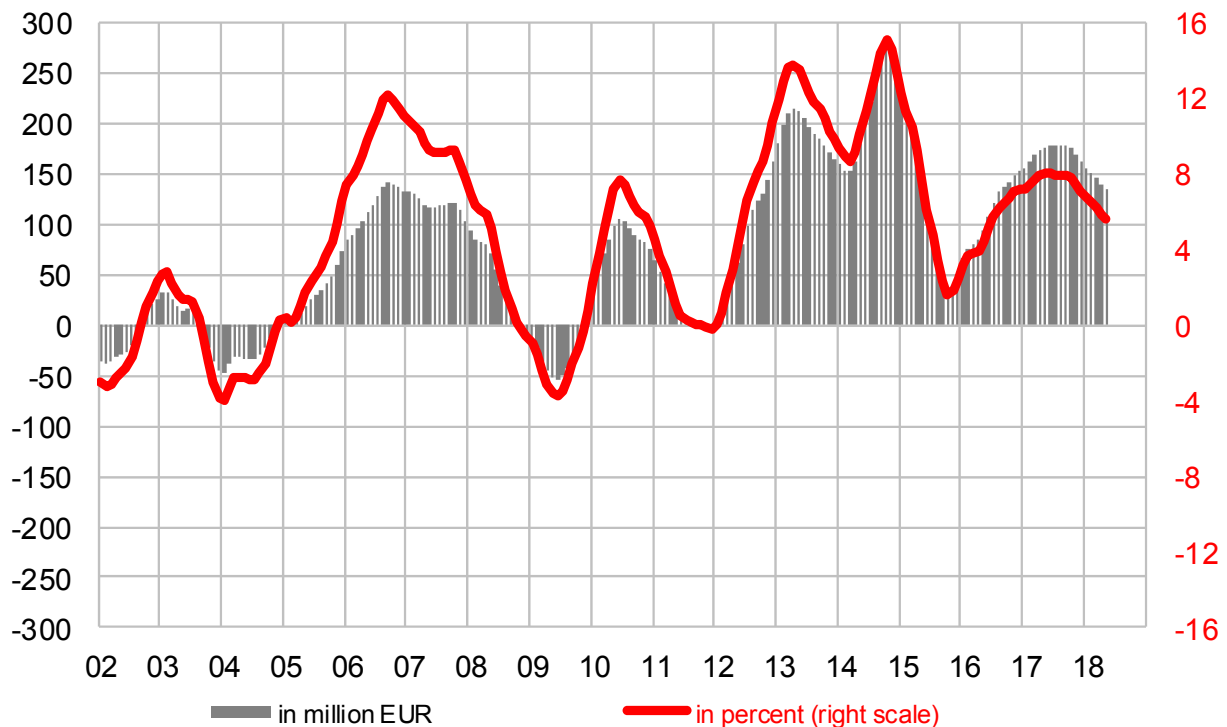
Strong 6.4% increase in loan stocks

According to Germany's Bundesbank, the loan portfolio of the banks operating in Berlin amounted to EUR 148.2 billion at the end of 2017, including EUR 84.6 billion in corporate loans. This represents an increase of 6.4% compared to the previous year.

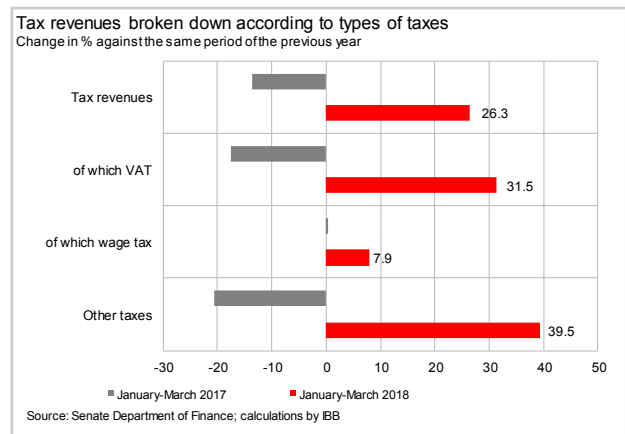
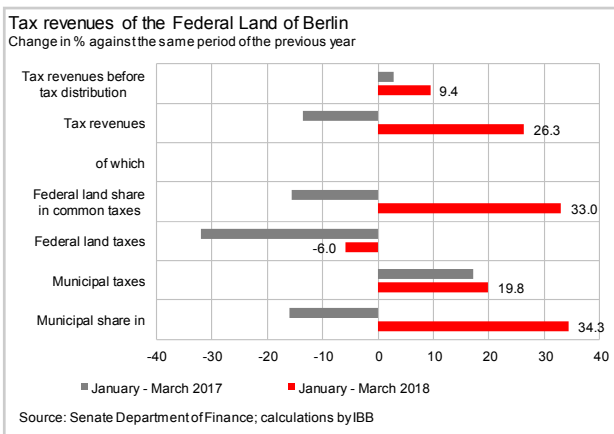
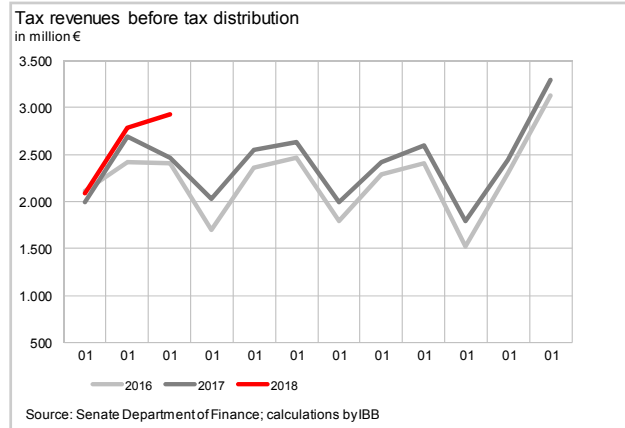
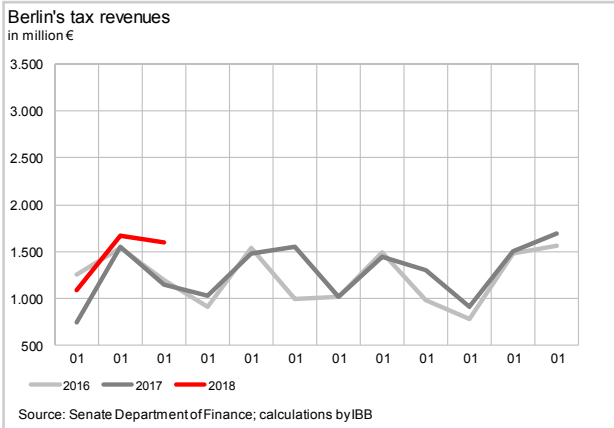
This is mainly due to the significant expansion of transport and communications loans by 19.3% to EUR 1.7 billion (compared to industry: +2.7% to EUR 1.9 billion). The loan portfolio of service companies also grew by 3.5% to EUR 57.1 billion. Due to favourable interest rates, loans to companies with short-term credit periods of up to one year were down (-16.0%) while loans increased with medium (+8.4%) and long-term (+6.7%) maturities. Loan activities in Berlin can also be expected to expand in 2018.

Berlin's tax revenues

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

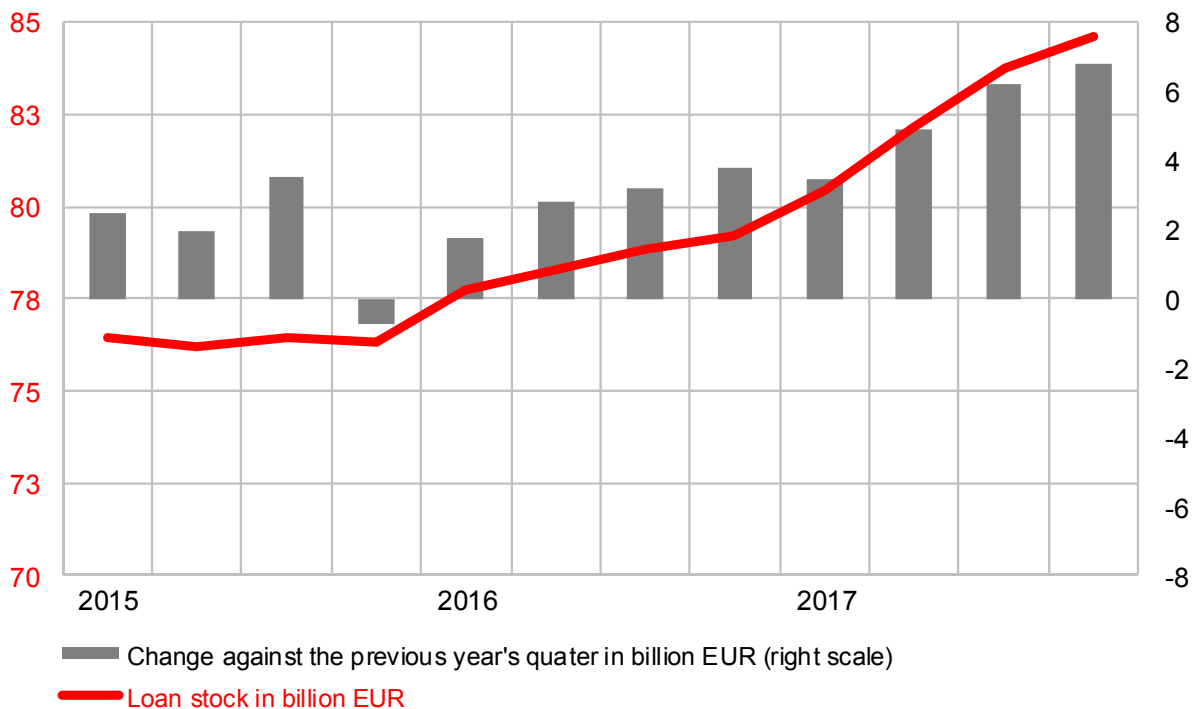


Source: Senate Department of Finance; calculations by IBB



Corporate Loans

Loan stock of all bank branches in Berlin



Source: Deutsche Bundesbank, calculations by IBB

Conclusion

Economy and finance markets on solid ground in 2018

Berlin is still experiencing a strong economic upswing, so that gross domestic product (GDP) in 2018 can also be expected to grow by 2.7%. Growth is therefore again higher than the German average of 2.1%. All in all, Berlin's economy is in a situation of overutilisation. Much of this development can be explained with Berlin-specific fundamental data. On the other hand, however, Berlin's current development is not independent of supra-regional contexts. The outlook for Berlin is therefore always based on assumptions about the global economy, the eurozone and capital markets. GDP growth of 2.1% is forecast for the eurozone in 2018.

The upturn in the global economy intensified noticeably in 2017. The US in particular – Berlin's largest trading partner with an export share of around 10% – was able to maintain its high pace. China's high growth rate by international standards also remained remarkably stable. As a result, a global, synchronous upswing has taken root, encompassing both developed and emerging countries. One risk to world trade, however, is the trade conflict with China emanating from the US.

In Berlin, too, the recent increase in incoming orders in the manufacturing sector and new hirings suggest that industrial production will again contribute to overall economic activity in 2018. In addition, dynamic demand in Germany and abroad and the further increase in capacity utilisation should significantly increase willingness on the part of Berlin's industrial companies to invest in new assets. A central challenge for Berlin's industrial sector in the coming years is the recruitment of qualified young talent. A shortage of skilled workers will result in industrial companies delaying necessary investments, which in turn will lead to a slowdown in growth.

Production expansions in Berlin's construction industry are also likely to be limited by the shortage of skilled workers in the coming months. As a result, the current strong momentum from construction activity for overall economic expansion in the capital city could weaken somewhat in the years to come. By contrast, business services will continue to expand strongly in 2018 and will again contribute to growth.

In 2018, Berlin's excellent labour market environment and its still favourable income prospects, the merely weak slowdown in immigration and the resumption of tourist growth will ensure that private consumption will also give a strong boost to the domestic economy. The dynamic expansion of Berlin's economy will further improve the already very good situation on the labour market in 2018. Employment will continue to rise sharply, unemployment will fall again and companies will report even more vacancies. The increase in employment in Berlin in 2018 will continue to be driven primarily by an increasing number of regular jobs. In this environment, Berlin's start-up scene is also faring very well, especially in the digital economy.

The public budget is benefiting from the strong economic upswing and the very good labour market development, from extremely favourable financing conditions and from increases in taxes. Public finances in Berlin will continue to develop very favourably this year. Investments in the infrastructure of the growing city, particularly in the areas of education, housing, transport and public safety, can therefore be increased to EUR 4.5 billion. The level of investment in the coming financial period would thus be around 50% above that of 2014/15. As a result, this will also further boost investment by companies in Berlin.

All in all, Berlin's economy will be good to go in 2018. Berlin's industry will once again contribute to economic growth as indicated by order books that have been filling for several months and new hirings. In addition, the current growth drivers, i.e. consumption, rising public and private investment, services and especially the digital economy, will continue to promote growth. Despite all geopolitical difficulties, Berlin's growth in 2018 will again be above average at 2.7%. That being said, however, the long growth cycle in Berlin is likely to have slowly reached its peak, so that a slight slowdown is to be expected in 2019. Nevertheless, Berlin will still end the coming year above the national average, which should also be slightly weaker at 1.6%.

Publisher:
Investitionsbank Berlin
Volkswirtschaft

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