

## 5. Structural changes

This analysis of structural changes in the economy is based on the thesis that the structures of production and consumption are changing with the growing economic level. Structural changes in the economy are monitored at the levels of sectors, external trade, investment, consumption of the population and industrial structure.

- **Steady fall in the primary sector** A fall in the primary sector (agriculture, mining and quarrying, fishing) from 6.7% of gross value added in 1996 to 4.3% in 2003 is part of the long-term tendency of development of economic structure. This development is contributed to particularly by agriculture where the fall was most marked over the given period. The long-term trend is related not only to the development of domestic demand, but also to the level of competitiveness of products of the primary sector; and last but not least to the tendency of material and energy intensiveness of the economy.

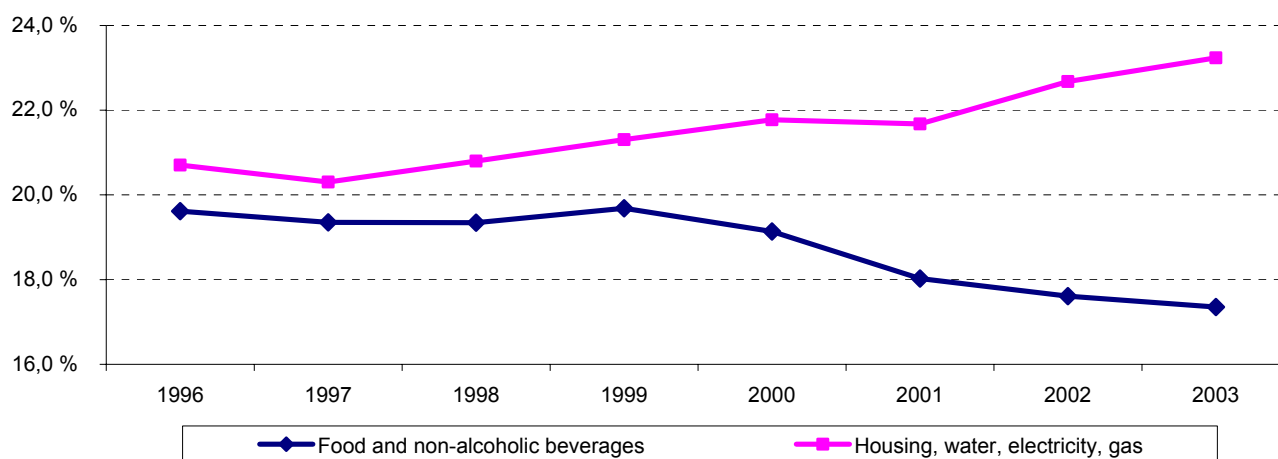
**Table 15 Gross value added**

		%, current prices								
Sector	CZ-NACE	1996	1997	1998	1999	2000	2001	2002	2003	2004
Primary	A+B+C	6.7	6.0	5.8	5.1	5.3	5.1	4.5	4.1	4.3
Secondary	D+E+F	39.0	38.8	37.0	37.3	37.1	35.4	36.5	36.8	36.8
Tertiary	G-P	54.1	55.2	57.1	57.6	57.6	59.5	59.0	59.1	59.0

Source: CZSO

- **Stable position of the secondary sector in the structure of the economy** The share of the secondary sector in the structure of the economy had a downward trend in the years of recession, from 39.0% in 1996 to 37.3% in 1999. However, its share stabilised at around 37% in the following upward stage of business cycle in 2000-2004, mainly due to the dynamic development of the industry (CZ-NACE 10-41). The share of the sector of services in GDP stopped rising in 2001. There are more factors participating in this development, the current zero job creation is among the most important ones. International comparisons show that the share of services in GDP is roughly 70% in the EU and 80% in the USA.
- **Decreasing share of food in household consumption** A decrease in the share of food from 19.6% in 1996 to 17.4% in 2003 is a constant tendency in the development of the structure of final consumption expenditure of households. Beverages, textiles and footwear, transport, recreation, culture, etc., whose shares in total household consumption did not change markedly, are among the market segments with a medium rate of growth of expenditures. Higher shares in consumption were recorded for post and telecommunications (from 2.0% in 1998 to 3.5%), housing rent (from 10.9% to 12.3%) and housing, water, electricity and gas (from 20.7% to 23.2%). The trend of changing consumption structure mirrors not only the changed demand profilation, but also changes in the price structure.

**Graph 24**      **Final consumption expenditure of households**  
(share in total expenditure by population, %, from current prices)



Source: CZSO

- **Considerable changes in the structure of industrial production**

The share of the industry (CZ-NACE 10-41) in the structure of the economy is stabilised at around 30%. Particularly light and heavy industry with a falling share in total industrial production are market segments where the potential of growth is exhausted to a large degree. This applies mainly to food industry whose share decreased by 4.5 percentage points in 1995-2003, textiles by more than 2 percentage points, leather by 1 percentage point, petroleum products and coke by nearly 3 percentage points. On the other hand, among products with increasing shares in the industrial markets are transport equipment (+4.5 percentage points) and electrical and optical equipment which grew from 9.1% in 1996 to 13% in 2003, leaving behind transport equipment (12.1%). Rubber and plastic products whose share rose from 2.8% in 1996 to 4.2% in 2003 see a dynamic development. Changes of the structure are shaped under the pressure of growing competitiveness of Asian products (light industry) and under the influence of the structural policy of multinational companies.

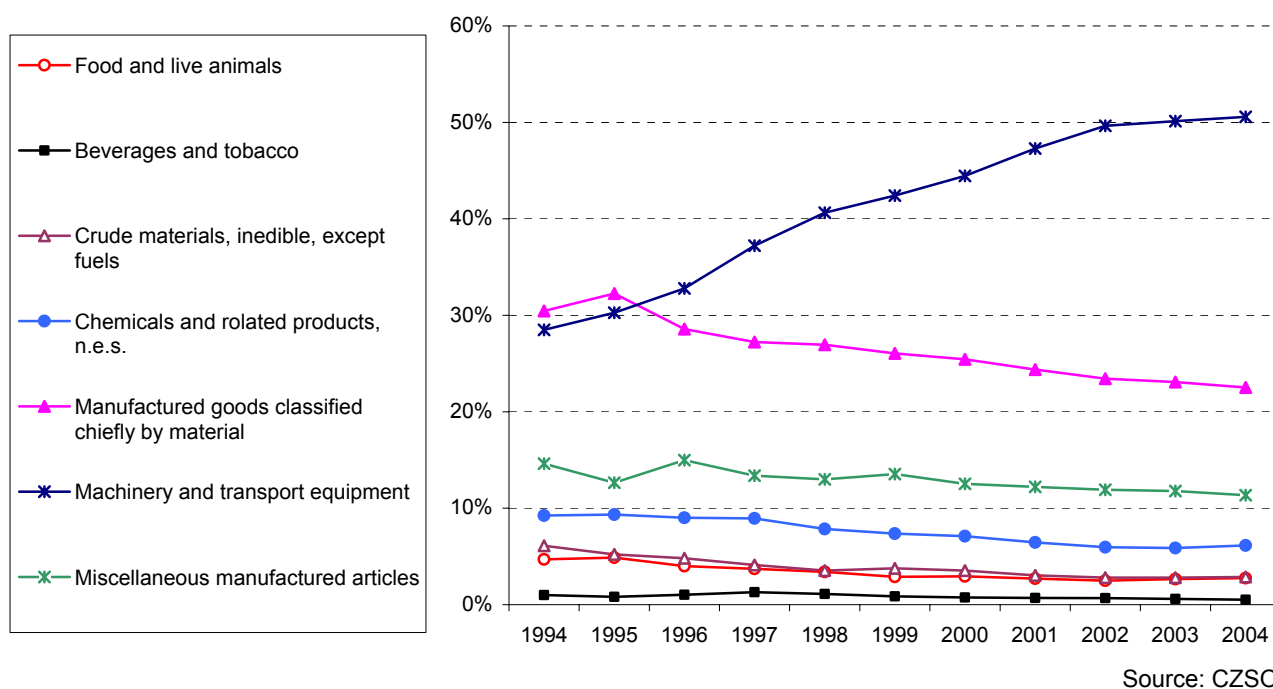
- **Link between structural changes in investment and production**

Empirical data showed concurrence in the development of production and investment structures. The highest increases in the share of gross fixed capital were reported for transport equipment (+3 percentage points), electrical and optical equipment (+2.2 percentage points) and rubber and plastic products (+1.1 percentage points). On the other hand, the largest reduction of the share was recorded for light industry.

- **Machinery and transport equipment dominating in exports**

An unambiguous development trend is gaining ground in the structure of exports. The position of machinery and transport equipment highly strengthened, raising its share in total exports from 28.5% in 1994 to 50.1% in 2003. All the other commodity groups reduced their shares in exports – chemicals from 9.2% to 5.9%, miscellaneous manufactured articles by roughly 3 percentage points, food by 2 percentage points and manufactured goods classified chiefly by material by 6.5 percentage points. This structure of exports is favourable in the period of economic prosperity but may be vulnerable in a downward stage of business cycle because it is strongly focused on transport equipment and motor vehicle parts whose cycle development is usually more clear-cut.

**Graph 25 Structure of exports by SITC section (y-o-y change in %, current prices)**



- Movements in the structure of imports are not that strong***

Changes in the structure of imports are not that big as in the structure of exports. Also the structure of imports is dominated by machinery and transport equipment, but their share in 2003 was by roughly 7 percentage points lower than in exports. Highly represented in the structure of imports are chemicals (more than 11%) which put a heavy burden on the balance of trade and indicate low competitiveness of Czech chemical products. Another important component are mineral fuels whose share ranges between 6.5% and 9.5% depending on commodity prices in world markets.

- The EU dominating in the structure of exports and imports by group of countries***

Important changes in the structure of imports by group of countries are affected only by business cycle in the EU. The share of the EU in total imports reached its peak at the end of the 1990s (64.2%), then decreased, and rose again in 2004. A similar development was observed for external trade with Germany where imports from Germany made up 30-34% of the total. Dynamically growing are imports from China (a share of more than 5%); on the other hand, the share of imports from Slovakia is falling (from 13.2% in 1994 to 5.2% in 2003). Changes in the structure of exports took place particularly in the second half of the 1990s when the EU accounted for nearly 70% of Czech exports. The share of exports to the EU stagnated in the following years and rose again in 2004.

Detailed data on the development of the structure of production, external trade, investment and consumption are given in the appendix.