

PRICES IN THE ESTONIAN CONSTRUCTION SECTOR CLOSEST TO THE EU-15 AVERAGE

The convergence of income levels inevitably leads to price convergence. The process starts up with the convergence of prices of goods exposed to international competition and is expected to end with the levelling off of the prices of personal services.

Over the last few years, Estonia has stood out for the price hike in the construction sector. According to the Statistical Office of Estonia, residential construction prices have risen by 40–45% during 1999–2006, whereas prices of goods have increased about 20%. Consequently, the prices of construction have converged most rapidly, having also raised the general price level of investment (see Table a).

Comparing the price levels in Estonia and in the old EU Member States (EU-15), it appears that construction prices in Estonia have picked up with the prices in the old Member States the most. The data on construction presented in Table a also include road construction, sports grounds and other structures. The harmonisation of construction prices in Estonia has probably been facilitated by the larger share of residential construction in total investment. Apart from the comparison of price levels, also other indicators confirm the rapid rise in the relative prices of construction, for example the ratio and dynamics of price per square metre of a dwelling to average wages.

Table a. Comparison of price levels in new EU Member States with the average of old EU Member States (%)

	GDP	Private consumption	Investment in machinery	Construction
EU-15	100.0	100.0	100.0	100.0
Sweden	112.7	115.8	96.8	136.0
Finland	107.6	116.5	105.2	76.2
Malta	65.0	67.3	98.6	49.6
Estonia	54.9	52.4	92.9	63.3
Cyprus	86.9	88.6	106.8	61.4
Lithuania	46.4	44.7	86.8	52.8
Latvia	47.5	47.0	85.2	52.8
Poland	46.1	45.2	84.7	41.0
Slovakia	50.1	47.1	94.7	53.4
Slovenia	69.8	70.2	90.9	54.3
Czech Republic	51.0	48.6	88.1	46.7
Hungary	56.3	53.9	90.4	59.7

Source: Eurostat, 2004