

Housing Market Drivers and Dynamics in Armenia

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Haykaz Igityan, Hasmik Kartashyan
Monetary Policy Department

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Abstract

This paper develops VAR model for Armenia with housing price and estimates the impact of housing price on GDP growth and inflation. Passthrough results show, that 1% increase in real housing price creates from 0.03 to 0.09% inflation and increases GDP by around 0.25% in the long run. Paper then discusses simple housing decision model and incorporates it into DSGE framework. Households are allowed to divide their disposable housing stock into private consumption and lend out to firms for commercial purposes. Having borrowing constraint in the model enables to generate both borrowing and housing cycles. Balance sheet channel allows to explain the empirically observed estimates of the effects of housing prices on the Armenian economy.

According to the theoretical model's results, the long-run response of inflation to the real housing price increase as a result of housing market's specific shocks is estimated to lie in the interval of 0.045-0.118%, which is very close to empirical estimates. Moreover, model estimated commercial housing preference cycle is consistent with historical events of the Armenian economy.

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