

Housing Market Dynamics and Macroprudential Policy in Turkey: Evidence from an estimated DSGE model

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Abstract

The aim of this paper is to observe the relation between the effects of macroprudential policy and housing collaterals on housing market fluctuations. A two-sector DSGE model with housing market is estimated using quarterly Turkish data from 2010 to 2016. The model is borrowed from Iacoviello and Neri (2010). The so-called model consists of two production sectors: non-housing (consumption) goods sector and the housing sector. These sectors include several types of nominal and real rigidities, and various technological trends. Also it is assumed that households can only borrow by using their houses as collateral. The model is simulated to obtain insights about the effects of a number of shocks on the housing market. A change in the maximum loan-to-value ratio from 0.75 to 0.85 implies that the size of the collateral which is a component of the monetary transmission mechanism explain the variance in consumption, GDP, housing prices and residential investments. It is shown that in order to properly understand the monetary transmission mechanism, the effects of housing-related collateral constraints and their changing nature should be taken into account.

Keywords: DSGE, Housing Market, Monetary Policy

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