

Boom in Bolivian housing market: bubble or economic fundamentals?

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ABSTRACT

In recent years, Bolivia has experienced a boom in the housing market raising the question of whether this phenomenon responds to economic fundamentals or if it is a speculative bubble. In that sense, the aim of this research is to test the hypothesis of the existence of this phenomenon in the Bolivian housing market (the national market as well as the one of three main capital cities of the country, namely La Paz, Cochabamba and Santa Cruz) for the period 2009-2012. In order to perform the analysis, a price index for the housing market is estimated (under a set of assumptions explained in detail in the paper). Furthermore, two methodologies usually employed in the literature were applied to test the hypothesis of the document: a cointegration analysis and the method of Levin and Wright (1997a y 1997b), which estimates the importance of the speculative component in the price of housing.

Regarding the results, the cointegration analysis indicates that the presence of bubble cannot be confirmed. More specifically, the results reflect that the long-term evolution of the real price of housing has been around its equilibrium, which is determined by key variables (real GDP per capita, average real interest rate of mortgage loans, and construction costs). Similarly, the second methodology (that measures speculation based on indicators that use the historical growth of housing prices) shows that there is not enough evidence to assert the emergence of a bubble in the housing market as its prices respond largely to economic fundamentals rather than to speculative components. Indeed, in the majority of estimated models, the variables employed to reflect the speculative component of housing prices were not statistically significant.

JEL Classification: C22, D84, R31

Keyword: Housing market, time series models, speculation