



ISSN: 2617-6548

URL: www.ijirss.com



Assessing the impact of the Russian-Ukrainian conflict: Econometric case study of Armenian economy

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Abstract

This paper explores the economic impact of migration stemming from the Russian-Ukrainian conflict on the Armenian economy (in the short run), with a particular focus on the real estate market. The significant influx of Russian migrants due to the Russian-Ukrainian conflict has introduced economic shifts, particularly in property prices, rental volumes, and housing transactions. The research employs econometric analysis to assess the relationship between migration and real estate market dynamics in Armenia. Data on property transactions, rental prices, and migration flows are analyzed to determine how migration influences housing demand and market trends. The results indicate that migration has led to a rise in real estate prices and rental demand, particularly in urban areas. Additionally, the inflow of skilled IT professionals has contributed to the establishment of new IT firms, further influencing economic activity and housing demand. The paper provides insights for policymakers and real estate stakeholders on how migration-driven market shifts can be managed effectively. Recommendations include developing housing policies to stabilize prices, leveraging migrant-driven economic growth, and mitigating potential risks associated with rapid real estate inflation.

Keywords: Armenia, Econometric analysis, Migration flows, Real estate market, Russian-Ukrainian conflict.

DOI: 10.53894/ijirss.v8i2.5095

Funding: This study received no specific financial support.

History: Received: 16 January 2025 / **Revised:** 17 February 2025 / **Accepted:** 25 February 2025 / **Published:** 4 March 2025

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Competing Interests: The authors declare that they have no competing interests.

Authors' Contributions: All authors contributed equally to the conception and design of the study. All authors have read and agreed to the published version of the manuscript.

Transparency: The authors confirm that the manuscript is an honest, accurate, and transparent account of the study; that no vital features of the study have been omitted; and that any discrepancies from the study as planned have been explained. This study followed all ethical practices during writing.

Publisher: Innovative Research Publishing

1. Introduction

Migration is a phenomenon whose existence dates back to antiquity. Throughout history, individuals have traversed regions in pursuit of improved opportunities, security, and livelihoods. This perpetual flux of human movement has served as a catalyst for the shaping and evolution of societies. The significance and ramifications of international migration are

closely intertwined with the process of globalization. Migration, broadly defined, encompasses any movement of individuals, irrespective of its structure, motivation, or nature, including refugees, migrant workers, and forced displacements alike. Regardless of migration's nature and underlying causes, it invariably generates uncertainty and yields consequences for both the host nation's advancement and the development of the country of origin. In such a milieu, the global economy persists in its progression amidst substantial uncertainty, thereby exerting its influence on subsequent trajectories within Armenia. As a small and open economy, Armenia demonstrates swift responsiveness to global shifts, particularly when those shifts impact partner nations. The escalation of the Russian-Ukrainian conflict has precipitated a comparable scenario within Armenia. Armenia, still in the process of recovering its economic strength following the Artsakh war, faced yet another external shock with the outbreak of the Russian-Ukrainian conflict. This conflict deeply affected Armenia's main partner, Russia, and its repercussions were keenly felt in Armenia as well. Consequently, the economic landscape of the country underwent a significant transformation.

The large-scale conflict between Russia and Ukraine precipitated a notable influx of people into Armenia, triggering a boom in the real estate market and driving up both rental and sales prices. These economic shifts, coupled with regional uncertainties such as Russia's economic downturn and expectations of a slow recovery, further intensified migration into Armenia. This influx, in turn, bolstered foreign currency inflows and spurred growth in various sectors of the Armenian economy, notably in services and trade. Consequently, significant changes occurred in the real estate market, alongside shifts in the labor market. These developments collectively contributed to a notable acceleration in Armenia's economic growth, with the GDP expanding by 12.6% in 2022 [1].

Considering the relevance of the economic consequences of the Russian-Ukrainian conflict on Armenia and the need for up-to-date research studying various aspects of the phenomenon, this paper aims to explore the impact of migration (stemming from the Russian-Ukrainian conflict) on the Armenian economy.

2. Literature Review

Migration serves as a catalyst for development, with 2.3% of the global population residing outside their country of citizenship. Amidst challenges posed by global economic disparities, shifting demographics, and climate change, migration emerges as a crucial factor. With effective governance, migration has the potential to propel prosperity and play a pivotal role in realizing the United Nations Sustainable Development Goals [2].

According to a World Bank report, globalization and demographic shifts have rendered migration a necessity across countries, irrespective of their income levels. High-income nations are experiencing rapid aging, prompting an influx of migrants from low-income countries that, in a way, rejuvenates their populations and addresses labor market gaps. Conversely, populations in low-income countries are expanding, yet many young people enter the workforce lacking the skills demanded by the global labor market. In 2020, approximately 84% of migrants resided in countries with higher income levels than their countries of origin [2].

The most common approach in analyzing migration flows is an approach to studying the push and pull factors [3]. Push factors encompass economic issues such as poverty, low wages, high taxes, and unemployment, as well as non-economic factors like discrimination, inadequate healthcare, social systems, wars, repression, corruption, crime, compulsory military service, natural disasters, and famine. Pull factors include both economic and non-economic incentives such as labor demand, higher wages, generous social benefits, robust healthcare and education systems, sustained economic growth, technological advancements, affordable living costs, familial and social connections, rights and freedoms, property ownership, law enforcement, and amenities.

The interplay of these factors influences an individual's decision to migrate from their primary place of origin. This migration flow significantly impacts both the sending and receiving countries. Furthermore, wars and other forms of violent conflicts involving state or non-state actors, such as state formation or genocide, often result in the displacement of refugees and other forced migrants [4]. One such shock is the Russian-Ukrainian conflict, which resulted in a surge of Ukrainian refugees into Europe and positioned Armenia as a host country for forced migrants.

The sanctions levied against Russia compelled a considerable number of individuals to seek temporary refuge in Armenia. The repercussions of the conflict and subsequent sanctions had a notable adverse effect on various sectors of the Russian economy. The initial spike in exchange rates and inflation led to a decline in the standard of living for ordinary Russians. Trade volume plummeted by 9.8% year-on-year in April 2022 and has yet to recover. Certain sectors, such as the sales of durable goods like household appliances, were particularly hard hit by these economic challenges [5]. The decline in living standards for households in Russia acted as a catalyst for emigration, but the military mobilization initiated in 2022 intensified this trend significantly. Military mobilization efforts hastened the departure of young, educated individuals in search of opportunities abroad. Since Russia ramped up its military activities, emigration has soared to historic levels. In 2022 alone, approximately 668,000 people left Russia, marking a 71% increase compared to the average of the previous five years [6].

The situation for the IT sector and freelancers in Russia worsened due to fluctuations in the exchange rate, economic recession, and sanctions imposed on banks, particularly impacting service exporters. Many individuals in these professions opted to relocate to Armenia for more favorable working conditions, coupled with the advantage of not requiring a visa for entry and the prevalence of the Russian language. The developed ICT sector of Armenia also contributed to the attractiveness of Armenia as one of the main directions for relocators [7]. This influx of relocators to Armenia led to increased demand for both purchasing and renting housing.

Various studies have investigated the correlation between immigration and price fluctuations in the real estate market. For instance, in Norway, data spanning from 1990 to 2014 revealed that immigration positively influenced GDP by boosting economic output and reducing unemployment and real wages. However, it did not significantly impact housing prices or household lending. This trend can be attributed to the fact that individuals migrating to Norway from Eastern Europe primarily seek employment opportunities rather than immediate property ownership goals [8]. The analysis conducted on the example of Spain, on the contrary, showed that, according to estimates of data for 2000-2012, an increase in the level of immigration by 1% increases the average selling prices of housing by 3.3% [9]. In Italy, which also has a reputation as a country with a historically higher emigration rate than Armenia, there is also a positive relationship between immigration and rising housing prices [10].

As a result of the Russian-Ukrainian conflict, Armenia has become not only a destination for migrants from various countries seeking jobs but also a transit country for those traveling to Europe, the USA, and other destinations. According to 2022 data [11], India is first in the global top by number of emigrants; Russia is third. From this point of view, it is also necessary to pay attention to the international migration corridors existing in our region, which are two: Afghanistan-Iran and Syria-Turkey. If we pay attention to the geography of the above-mentioned international migration intervals, then this is a logical continuation of one another, and for migrants from Turkey, there is already another corridor - Turkey-Germany. In the backdrop of all these conditions, Armenia can become a new international migration corridor in the region. Developing countries are becoming new tourist destinations, attractive to tourists not only in terms of sightseeing but also in terms of low expenses. The success story of tourist migration from low-income countries belongs to [Tanzania Export Website](#) [12], where the tourism sector has grown by 300% over the past decade, accounting for 10% of the national GDP [13]. According to the 2022 data, the travel and tourism development index for Armenia is 4 (overall scores range from 1 to 7, where 1 is the worst and 7 is the best), and it ranks 61st among 117 evaluated countries [14].

According to [Money and Taylor](#) [15], to the related literature, people's movement on an international scale mainly relates to three categories – refugees, international travelers, and migrant workers (labor migration). J. M. Keynes is considered the founder of the system of state regulation of the economy and considers the world economy as a set of economies regulated by states, the main purpose of which is to ensure full employment of the population. He also notes that the global labor market, shaped by international labor migration, is an arena of conflicting national interests [Keynes](#) [16]. [Thomas](#) [17] notes that the international movement of labor from one country to another is due to differences in positive or negative economic conditions within these countries. As a result of the rapid development of international migration processes, each state needs to develop its migration policy and consistently improve it from year to year in accordance with state interests. According to [Castles](#) [18], states cannot always influence international migration processes through their migration policy, particularly in the long term. According to the author, the reason for all this is that state control is based on national logic, while most of the factors causing migration processes are based on transnational logic. Armenia's migration policy should be developed, primarily considering national interests. Additionally, it should incorporate transnational logic based on its impact on the new transnational economy. Currently, the state's priority should be solving the life support problems of its population. The interests of the population should also benefit from the results created through the application of transnational logic.

3. Materials and Methods

The central hypothesis of this article is the following: The migration flows stemming from the Russian-Ukrainian conflict have a statistically significant impact on the economic growth of Armenia. To test the hypothesis within the scope of the article, we examined the correlation and impact of migration on GDP and then narrowed the analysis by assessing the impact of migration flows stemming from the Russian-Ukrainian conflict on the real estate market dynamics in Armenia.

International migration flows can have both positive and negative impacts on the economy. We attempted to demonstrate this influence using regression analysis, in which the balance of emigration and immigration in Armenia (as an indicator characterizing migration flows) was considered a factor influencing the GDP per capita in Armenia. The econometric tools are widely used empirical methods that help to quantify the relationship between various economic phenomena. Such methods are incorporated into the methodology frameworks of studies spanning from processing industry ([Arion, et al.](#) [19]), micro (firm level) production efficiency ([Asatryan, et al.](#) [20]), digitalization ([Harutyunyan, et al.](#) [21]), and labor studies [22]. The use of regression analysis is a common method for quantifying the impact of various factors on economic phenomena [23]. To assess the impact of the migration flow resulting from the Russian-Ukrainian conflict, the following research objectives were outlined:

1. Analyze the dynamics of the migration flows.
2. Investigate the changes occurring in the real estate market.
3. Perform correlation-regression analysis on the impact of migration flows on the real estate market.

For the analysis, the annual data from 2015 to 2022 was taken into account, and the following factors were considered ([Table 1](#)):

- GDP per capita (CGDP).
- Border crossings (SALDO).
- Net migration flow (NETMIG).
- Real estate sector GDP (RGDP).
- Real estate sales volume (SALE).
- Rental transaction volume (RENT).
- Housing price per square meter (PRICE).

Table 1.

The baseline data characterizes the migration dynamics and the real estate market.

Year	GDP per capita	Border crossings	Real estate sector GDP	Real estate sales volume	Rental transaction volume	Housing price per square meter	Net Migration
2015	1678600	-43425	4.38E+11	36413	7141	274200	-25900
2016	1693400	-48170	4.35E+11	33754	7568	274900	-24800
2017	1867700	-26909	4.36E+11	38824	9513	265300	-24000
2018	2022600	15318	4.6E+11	45637	9864	284200	-18286
2019	2208700	10506	5.12E+11	51508	12178	315000	-15400
2020	2087400	12093	4.29E+11	46159	10707	338500	3400
2021	2360300	-43874	5.25E+11	56044	11432	338500	-4119
2022	2863300	38732	6.72E+11	52928	10638	355470	6080

Source: Armenian Statistical Committee, <https://armstat.am/en>

With the first step, a correlation analysis was performed to explore the nature of the correlation between the studied factors. Then, to disclose the impact of migration flows on the real estate market, the linear regression analysis method was applied (1).

$$y_t = a_0 + a_1 x_t + e_t \quad (1)$$

Where:

y_t is the actual value of the dependent variable at the point of time t .

x_t are the actual values of independent variables at the point of time t .

a_0, a_1 are the parameters that are estimated through the method of least squares.

a_1 is the regression coefficient in the given year, which indicates, the influence of the change of one unit of an independent variable on a dependent variable.

a_0 is the intercept parameter.

The necessary data were obtained from the publications and databases of the Statistical Committee of Armenia and the Migration Service. Additionally, to study changes in the real estate market, we examined data provided by the State Cadastre Committee. In refining our analysis, we delved into the works of both foreign and local authors. Employing the EViews software package, we evaluated an econometric model to deepen our understanding.

4. Results

Over the years, Armenia has experienced more emigration than immigration. However, the escalation of the Russian-Ukrainian conflict has contributed to an increase in immigration. Those relocating to Armenia typically view this country as either a medium-term residence destination or a transit point for travel to a third country. This notable influx of individuals has stimulated growth in Armenia's real estate market, labor market, and service consumption sector. Russian arrivals in Armenia, often referred to as relocators, frequently relocate their businesses upon arrival. If we examine the border crossing data for 2022, we will find that the highest number of arrivals consisted of individuals holding Russian citizenship [Table 2](#).

Table 2.

Arrivals to Armenia in 2022 by country of citizenship.

Country of citizenship	Input	Output	Balance
Total	1 479 798	1 507 739	-27 941
Russia	1 129 829	1 064 680	65 149
Georgia	251 451	248 918	2 533
Iran	134 538	135 302	-764
USA	56 810	58 586	-1 776
Ukraine	31 157	30 818	339
Germany	26 160	26 248	-88
France	26 008	26 337	-329
India	22 979	21 968	1 011

Source: Migration Service of Armenia, <https://www.migration.am/statistics>

The migrants who arrived in Armenia in 2022 are categorically classified into two distinct groups based on their reasons for relocation [\[24\]](#):

1. The first group arrived in spring, primarily due to restrictions stemming from the Russian-Ukrainian conflict, particularly constraints imposed on the banking system.

2. The second group arrived in autumn, prompted by the mobilization announced in Russia, often indicating a refusal to participate in hostilities.

Those arriving in spring were classified as generally “solvent” migrants possessing higher qualifications, while those arriving in autumn were deemed “partially solvent” or “mixed” migrants, typically comprising specialists with intermediate qualifications [\[24\]](#). In January-March 2022, 142,117 Russian citizens arrived in Armenia, most of whom left; the migration balance amounted to 4,006 people [\[25\]](#).

Taking into account the similar influx of Russians discussed in the aforementioned studies, we put forward the following main hypothesis: the migration flows will affect the formation of real estate prices in Armenia, the volume of alienation, and rent. Before assessing the impact of migration flows on the indicators of the real estate market, we first conducted a regression-correlation analysis on the relationship between GDP per capita and migration. Table 3 shows that there is a strong direct correlation between GDP per capita and net migration (0.748342).

Table 3.

The results of the regression analysis.

Variable	Coefficient	Std. Error	t-Statistic	Prob.
NETMIG	12.40954	3.316488	3.741771	0.003256
C	2088306	121642.8	17.16753	2.73E-09
R-squared	0.560015	Pearson Correl.		0.748342
Adjusted R-squared	0.520016	S.D. dependent var		346785.4

The presented results indicate the statistical significance of the model. The R^2 and Adjusted R^2 values are quite high, which indicates a significant influence of the independent variables included in the model on the dependent variable. The Adjusted R^2 in the model is 0.520016, which means that 52.0016% of the variation in the output variable is due to the influence of the independent variables included in the model. An analysis of the results of the parametric evaluation of the linear regression model shows that the influence of the independent variable on the dependent variable is significant; this becomes clear from the P-value, as it is less than 0.05. By including the estimates obtained in the regression model, we obtain the following regression equation:

$$CGDP = 12.40954 * NETMIG + 2088306, \quad (2)$$

According to the regression model, an increase in net migration, all other factors being equal, contributed to an increase in GDP per capita by 12.40954 AMD. In summary, the conducted econometric analysis results reinforce the idea that migration flows have a statistically significant impact on the Armenian economy. This brings us to the next part of the analysis: the assessment of the migration impact on the real estate market of Armenia. The real estate sector GDP (RGDP) and real estate sales volume (SALE) were adjusted to real values in accordance with the CPI (rates taken from the RA Statistical Committee). An analysis of correlation coefficients to determine the correlation between the studied phenomena was conducted (Table 4).

Table 4.

Correlation coefficients matrix.

	RPRICE	NETMIG	SALDO	SALE	RENT	RGDP
RPRICE	1					
NETMIG	0.755	1				
SALDO	0.396	0.615	1			
SALE	0.619	0.757	0.524	1		
RENT	0.671	0.642	0.564	0.897	1	
RGDP	0.043	0.428	0.520	0.601	0.428	1

There is a strong positive correlation between housing price per square meter (PRICE) and net migration flow (NETMIG). There is an average correlation between housing price per square meter (PRICE) and real estate sales volume (SALE), rental transaction volume (RENT), and border crossings (SALDO). The relationship with the GDP ratio created by the industry is very weak. Since the correlation coefficient between the real estate sales volume (SALE) and rental transaction volume (RENT) is 0.89, it can be assumed that there may be multicollinearity present. Therefore, the model will be represented as follows (3):

$$Y = \alpha_1 * X_1 + \alpha_2 * X_2 + \dots + C \quad (3)$$

As observed from the model evaluation results, net migration flow demonstrates a significant positive influence on the housing price per square meter (PRICE). The econometric assessment results are presented by the following equation (4):

$$RPRICE = 0.886473 * NETMIG + 243473.3 \quad (4)$$

These regression results suggest that the housing price per square meter (RPRICE) is influenced by the net migration flow (NETMIG) and an intercept term (Table 5).

Table 5.

The results of the econometric model.

Variable	Coefficient	Std. Error	t-Statistic	Prob.
NETMIG	0.886473	0.313650	2.826312	0.0301
C	243473.3	5543.363	43.92159	0.0000
R-squared	0.571062	Mean dependent var		232057.2
Adjusted R-squared	0.499572	S.D. dependent var		15179.57

- The coefficient of NETMIG (0.886473) indicates that for every unit increase in net migration flow, the housing price per square meter is expected to increase by approximately 0.886473 units, assuming all other factors remain constant.

- The intercept term (243,473.3) represents the estimated housing price per square meter when the net migration flow is zero. It indicates the baseline housing price independent of net migration.

5. Discussion

The Russian-Ukrainian conflict has had profound and far-reaching economic consequences, affecting not only the two countries directly involved but also neighboring regions and global markets. Various studies have explored these impacts, shedding light on the multifaceted challenges and opportunities arising from the crisis.

Countries in Eastern Europe, particularly Poland, Moldova, and the Baltic States, have experienced significant economic effects due to the influx of Ukrainian refugees and disruptions in trade. A study by [Fetzer \[26\]](#) highlights that Poland has seen a notable strain on public services, housing, and labor markets, resulting from over 1.5 million Ukrainian refugees entering the country. This influx has also spurred labor market growth, as many refugees were absorbed into low-skilled job sectors, addressing Poland's labor shortages while raising social integration challenges.

The EU faced considerable challenges due to its reliance on Russian energy exports. Research by [Korhonen \[5\]](#) illustrates how the sanctions imposed on Russia led to a sharp increase in energy prices across the EU, particularly in Germany and Italy. This energy crisis prompted the EU to accelerate its transition to renewable energy sources and diversify its energy supply chains. Additionally, the disruption of agricultural exports from Ukraine, a key global supplier of grains and sunflower oil, has heightened food insecurity in many regions, particularly in North Africa and the Middle East.

Globally, the conflict has exacerbated supply chain vulnerabilities, particularly in industries reliant on rare earth metals and critical components produced in Russia and Ukraine. According to a report by the [International Monetary Fund \[27\]](#), countries like China and India have leveraged the opportunity to increase imports of discounted Russian oil, while Western nations faced rising production costs due to sanctions. This realignment has underscored the geopolitical shifts in global trade patterns.

As highlighted in this paper, Armenia has experienced economic growth in certain sectors due to the influx of migrants from Russia and Ukraine. The study by [Poghosyan \[24\]](#) emphasizes that the Armenian IT and real estate sectors have significantly benefited, as skilled migrants relocated to Armenia to escape the effects of sanctions and military mobilization in Russia. This has spurred economic activity but also raised concerns about housing affordability and social integration.

Central Asian countries, such as Kazakhstan and Uzbekistan, have also benefited from the conflict by positioning themselves as transit hubs for trade and investments previously routed through Russia. A study by [Dosymbetov \[28\]](#) notes that these countries have attracted foreign direct investment (FDI) from businesses looking to circumvent sanctions on Russia. Additionally, the remittance flows from migrant workers in Russia have significantly impacted the economies of Kyrgyzstan and Tajikistan, highlighting the complex interplay of economic dependencies. The conflict has underlined the fragility of global economic interdependence. Inflationary pressures and heightened uncertainty have negatively affected emerging markets and developing economies, leading to tightened monetary policies globally. For instance, Brazil and South Africa have faced rising import costs for energy and fertilizers, directly impacting their agricultural productivity and inflation rates.

The Russian-Ukrainian conflict has not only disrupted regional stability but also created ripple effects across the global economy. From trade disruptions and energy crises in the EU to labor market opportunities and challenges in Armenia and Eastern Europe, the conflict's economic consequences are varied and complex. These findings underscore the need for coordinated international policies to mitigate adverse effects and leverage emerging opportunities.

In the context of all this, it is necessary to introduce and develop standards for the digitalization of migration processes in Armenia. With their help, it will be possible to monitor migrants and account for their numbers. Currently, digitization systems are being actively implemented in different countries, the purpose of which is to reduce the number of crimes in society and increase the level of public order, as well as to increase the number of qualified specialists in their country. Digitization systems will allow the creation of databases about migrants, which will contain complete information about them (including labor migrants) and will make this information completely transparent for countries that cooperate.

In our opinion, one of the prospects for the development of states with small economies is that they must first provide conditions for the normal existence of their population, and only then take new steps to attract foreign labor migrants and export products created in their own country. Limitations of the study: In this study, the primary focus was on the price per square meter of apartments within apartment buildings in Yerevan. However, the authors acknowledge that residential buildings also affect migration-induced price changes. The real estate prices in regional apartments were excluded due to Armenia's high urbanization rate of 63.8% ($U.R. = \text{urban population} / \text{population of the country} * 100\% = 1,892.2 / 2,961.4 * 100$), with the majority of the population concentrated in cities, notably in the capital city of Yerevan. Future research will explore real estate market dynamics in the regions.

6. Conclusion

Armenia's attractiveness to migrants from different countries is attributed to various reasons. For migrants arriving in Armenia from Russia and Ukraine, the primary motive is often the historical aspect, as close and good-neighborly relations existed between our countries during the Soviet era. In addition, Armenia, being in normal economic relations with the member states of the European Union and the United States, has become a country for convenient business relations for several entrepreneurs and workers from these countries. For Indian migrants, Armenia is not only a good country for education but also becomes a destination for labor migration. A distinctive feature of our country is that Armenia, being a country of emigrant workers, has also become a country receiving migrant workers. In other words, our country can become one of the corridors connecting the countries of Europe and Asia. In summary, this regression analysis suggests that net migration has a statistically significant positive impact on the housing price per square meter in Armenia. Based on the results,

we can infer that a rise in Armenia's net migration flow by 1,000 will lead to an increase in the price of 1 square meter by an average of 886 AMD (which is equivalent to 2 EUR). With an R-squared value of 0.57 and an adjusted R-squared value of 0.499, approximately 49.9% of the variance in the price of 1 square meter of apartments in Yerevan's apartment buildings during the studied period was explained by changes in net migration. The regression analysis confirms the hypothesis that the increase in migration flow in Armenia contributes to the rise in housing prices within the real estate market.

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