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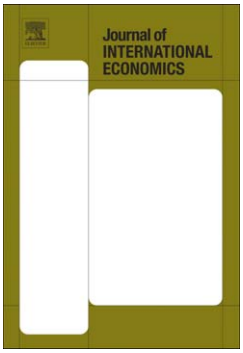

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ACCEPTED MANUSCRIPT

The Macroeconomic Consequences of Remittances*

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Abstract

This paper analyzes the dynamic absorption of remittances at the macroeconomic level, contrasting two possible effects on economic activity, depending on whether these accrue to hand-to-mouth wage earners or credit-constrained entrepreneurs. Using an open economy DSGE model with heterogeneous households, we show that the effects of remittances are inherently contractionary if they accrue to the first group, and expansionary when they accrue to the second group. Calibrating the model to Philippines using both aggregate data as well as micro-evidence from the Family Income and Expenditure Survey (FIES), we show that accounting for both binding credit constraints and the internal distribution of remittances improves the model's fit to the data. Welfare gains result when the distribution of remittances is skewed towards entrepreneurs.

Keywords: Remittances, credit constraints, labor supply, output, investment, consumption, welfare.

JEL Classification: F24, F41, O11

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