

## The Macroeconomic Consequences of Remittances

This paper examines the importance of borrowing constraints and the distribution of asset ownership in determining the effects of remittance inflows. Using an open economy DSGE model where heterogeneous households face binding credit constraints, we show that the aggregate response of the economy depends critically on the interaction between the distribution of remittances across households and their ownership of capital (or lack of it). An increase in remittances accruing to households with no ownership of capital has a contractionary effect on the economy, while the reverse holds true when households with capital are the principal recipients. The ability of remittances to smooth business cycle shocks depends critically on their distribution across heterogeneous households. When credit constraints are binding, remittances explain a significantly larger fraction of the variation of key macroeconomic variables, relative to when they are not binding. Using data for Philippines, we show that the model specification with binding credit constraints performs relatively better (compared to a model without credit constraints) with respect to the key moments and correlations in the data. The welfare consequences of the distribution of remittances are also analyzed.