

## **“The Macroeconomic Consequences of Remittances”**

**Dennis Jansen, Diego Vacaflores, and George Naufal**

**Abstract:** *This study incorporates remittances in a small open economy and examines the behavior of the main macroeconomic aggregates in response to a remittances shock. Using a stochastic limited participation model we are able to reproduce dynamics consistent with the empirical literature, like the creation of inflationary pressure, higher levels of consumption, a initial reduction of work effort, an increase in investment, and a significant expansion of output. We also find that the motivation to remit is important for the way in which a remittances shock affects the economy: if the motive to remit comes from self-interest – instead of altruism – then higher proportions of remittances would be channeled towards investment and thus produce an enhanced increase in output, but the cyclical influence of the economic performance of the receiving country on the amount sent would have only a magnifying effect, without affecting the direction of the effect. The degree of remittances dependence of the economy also alters the magnitude of the responses, with economies where remittances constitute a higher share of GDP experiencing a larger improvement in output from a similar size shock, while economies where remittances represent a smaller fraction of labor income experiencing a magnified effect.*