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Abstract

This paper empirically examines the effects of international remittances on local house prices. International remittances are one of the main drivers of capital inflows in emerging economies. We consider the salient case of Colombia. In the last two decades, remittances have represented, on average, 2% of GDP. One main advantage of studying the Colombian housing market is that we are able to construct a panel of housing returns at the project level. By exploiting the regional and temporal variation of international remittances, we document that they have large heterogeneous effects across regions and housing types. In particular, we find that remittances inflows have positive effects on house prices growth in high unemployment municipalities and low-quality housing. These results hold when considering an IV-strategy using remittances to Latin America countries (excluding Colombia). We develop a stylized model with borrowing constrained households and segmented housing markets to rationalize these results. Our findings suggest that international remittances are an important source of liquidity for credit constrained households.