

The Macroeconomic Determinants of Remittances

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Microeconomic variables have important impacts on remittances.

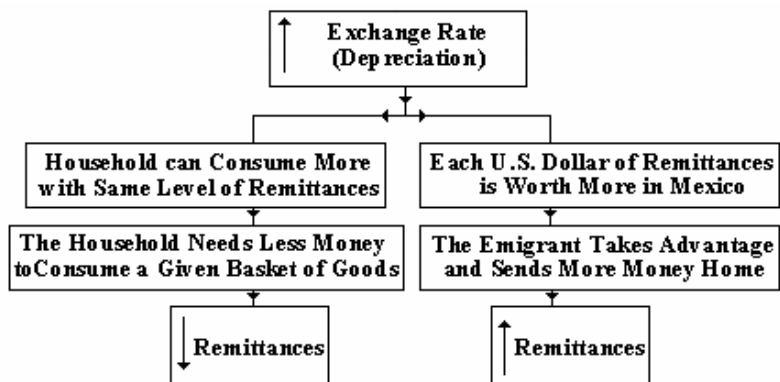
- Income (household and immigrant).
- Education (household and immigrant).
- Time in the U.S. (remittance decay).
- Family composition and location.
- Visa status.
- Gender (household head and immigrant).

While Micro variables are important, Macro variables may also impact remittances

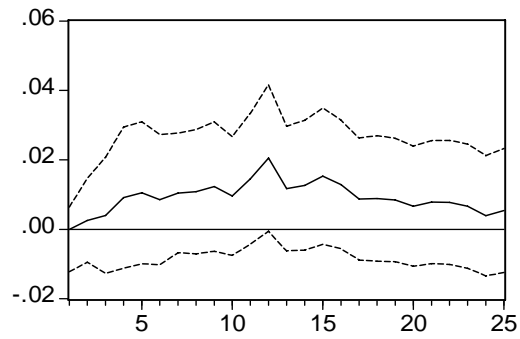
Some examples:

1. Exchange Rates.
2. Prices.
3. Returns to Investment.
4. Output (home and host country).

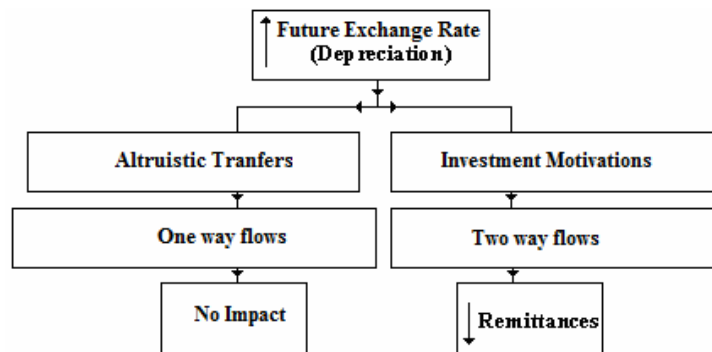
Exchange Rates and Prices



- *Response of Remittances after a Shock to the Exchange Rate (pesos per dollars).*



Source: Vargas-Silva (2006).



Variable	Coefficient (t)	Partial Effect on the Probability of Remitting	Partial Effect on the Expected Amount Remitted if Remitting
Country Specific Variables			
Δe	6.04 (1.89)*	0.001	2.26
Future Δe	-27.56 (-5.65)***	-0.004	-10.29
Home Country GDP	-5.53 (-0.69)	-0.001	-2.07

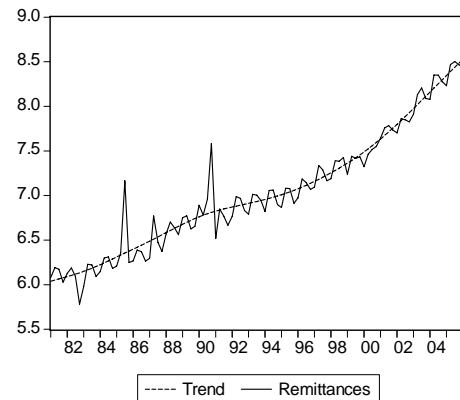
Source: Vargas-Silva and Pozo (2007).

Output

- Output may reflect the economic condition of the household (migrant).
- Output may reflect the investment environment in the home (host) country.

What about cyclical fluctuations?

Figure 1: Remittances in Mexico across Time



Any correlation with cyclical fluctuations in Mexico's output?

Table 2: Correlations of Remittances and FDI with Mexico's Output

	$t-3$	$t-2$	$t-1$	t	$t+1$	$t+2$	$t+3$
	(1)	(2)	(3)	(4)	(5)	(6)	(7)
Mexico's inward remittances	0.08	0.09	0.09	0.00	-0.17	-0.41*	-0.60*
US outward remittances	-0.00	0.08	0.08	-0.01	-0.17	-0.30*	-0.34*
FDI	0.48*	0.41*	0.37*	0.40*	0.43*	0.41*	0.27*

Source: Vargas-Silva (2007).

Any correlation with cyclical fluctuations in US output?

Table 3: Correlations of Remittances and FDI with US Output

	$t-3$	$t-2$	$t-1$	t	$t+1$	$t+2$	$t+3$
	(1)	(2)	(3)	(4)	(5)	(6)	(7)
Mexico's inward remittances	0.29*	0.30*	0.21*	0.06	-0.07	-0.14	-0.13
US outward remittances	0.02	0.11	0.17	0.22*	0.25*	0.27*	0.29*
FDI	0.02	0.02	0.04	0.03	-0.03	-0.13	-0.22*

Source: Vargas-Silva (2007).

Macro impact

- In Mexico, we don't have one or two households receiving remittances, we have thousands of households receiving remittances.
- Moreover, individual transfers are not usually large, a few hundred dollars here and a few hundred dollars there, but the total sum of these transfers can reach enormous dimensions.

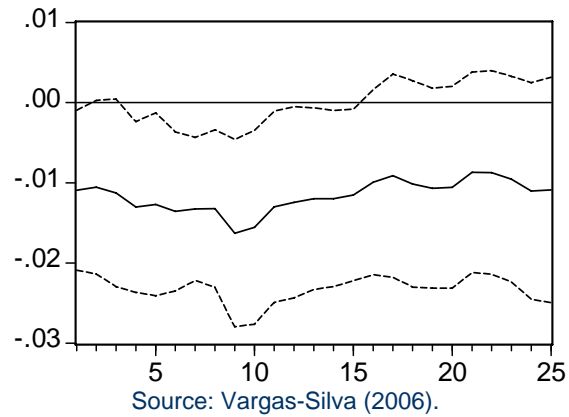
- As such remittances may also impact macroeconomic variables (causality may go both ways!!)

Exchange Rate

- Remittances may appreciate the real exchange rate.
- Exchange rate appreciation can affect the competitiveness of the tradable sector.

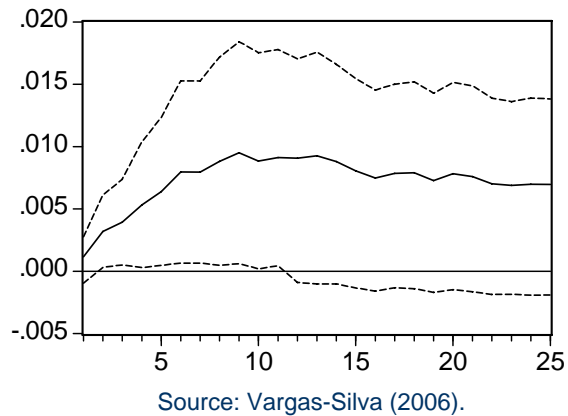
Exchange Rates

Response of the Mexican peso after a Shock to Remittances.



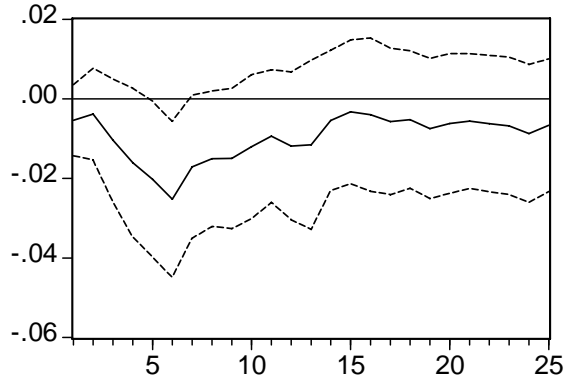
Money Demand

Response of Domestic Money Demand after a Shock to Remittances.



Demand for U.S. dollars

Response of Demand for U.S. Dollars after a Shock to Remittances



Source: Vargas-Silva (2006).

Conclusions

- Remittances are a micro and a macro phenomenon. Need to be aware of both aspects in order to understand the nature of remittances in Mexico.
- Demographic factors (gender, age, family composition, among others) affect the level of remittances.
- In order to understand the true impact of remittances we need more information on the population of remitters.

Conclusions

- Macroeconomic factors, that impact “the risk, return and need” of remittances, also have an impact on remittances. This factors include exchange rates, prices and returns to investment, among others.
- Remittances are strongly correlated with cyclical fluctuations in US output. This suggests that remittances may become another channel by which cyclical fluctuations in US output get transmitted to Mexico.

Conclusion

- Remittances impact macroeconomic variables in Mexico (two way relationship).



Thanks!!!

Gracias!!!