

Remittances, International Reserves, and Exchange Rate Regimes

Abstract: International reserves are experiencing a significant increase, in part as a result of specific policies but also from the development of external factors, like remittances. This paper examines the role that remittances play in the accumulation of reserves, and uses a dynamic panel model for a group of 9 Latin American countries in the period 1997-2010 to uncover its influence. Our results show that international reserves are influenced positively by higher trade surpluses, exchange rate depreciations, interest rate differentials, rises in commodity prices and higher inflows of remittances. In fact, the influence that remittances exert on reserves is the strongest and most consistent amongst our determinants. Not surprisingly, we uncover a differential impact of remittances emanating from specific characteristics, like location of the receiving country, relative importance of remittances in terms of GDP, and the exchange rate regime in place, with countries operating under more rigid exchange rate regimes experience the expected magnified effect on reserves.