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The Tale of Three *Amigos*: Remittances, Exchange Rates and Money Demand in Mexico

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Abstract:

This article analyzes the relationship between remittances, exchange rates and money demand in Mexico. We find that shocks to remittances have a positive impact on domestic money demand. The results also suggest the existence of a bi-directional relationship between remittances and the exchange rate. Furthermore, positive shocks to remittances are found to have a negative impact on Mexico's real exchange rate. This indicates that remittances appreciate the Mexican peso and therefore, may impact the competitiveness of the tradable sector negatively.