



PHILIPPINE STATISTICAL ASSOCIATION, INC.

2/F Philippine Social Science Center
Commonwealth Avenue, Diliman, Quezon City
Telephone (632) 920-6513 Telefax (632) 456-1928
Email: psa.sec@gmail.com; psai.sec@gmail.com
PSA website : www.philstat.org.ph

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Identifying the Determinants of Overseas Filipinos' Remittances: Which Exchange Rate Measure is Most Relevant?

Francisco G. Dakila, Jr. and Racquel A. Claveria

Abstract

The study considers which exchange rate measure is the most relevant determinant of overseas Filipinos' (OF) remittances. The study employs a microeconomic framework (involving a utility maximizing household) to help form the basis for selection of variables to be included in the estimations. Different versions of the vector autoregressions (VARs), which vary by the particular exchange rate measure utilized, were estimated to quantify the impacts of the major influences on OF remittances. An OF deployment-based effective exchange rate index was constructed in the study which proved to be a significant predictor of the movement of OF remittances. Moreover, an incidental but significant finding of the study is the procyclical nature of OF remittances.

Keywords: *Cyclical behavior, index numbers, exchange rate, vector autoregression, Granger causality test.*