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We identified and estimated a SVAR model in the real and nominal exchange rates through the Blanchard and Quah decomposition. This enables us to provide results regarding the magnitude and length of nominal and real shock effects in the real and nominal exchange rate. We estimate that the fundamental sources of real exchange rate fluctuations are real factors. Our first result is that the real effect of nominal shocks die out in less than six months. Second, we find that convergence time has decreased since the implementation of exchange rate bands.