**Is Groningen Effect Still Present in Russia:**

**A Vector Error Correction Approach**

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**ABSTRACT:** In this article we aim to test the Groningen effect on the example of Russia. According to the Groningen effect, a boom in the resource sector leads to deterioration in other sectors of the national economy due to appreciation of the national currency. This leads to, given the openness of the economy and elasticity of global markets’ prices, to a decline in manufacturing sector and a rise in the services sector. The hypothesis is tested on the example of Russia. To test the hypothesis, we examine the impact of oil prices’ dynamics (Brent) on different sectors of Russian economy, including manufacturing, real estate services, transport and communication services over the period 1990-2016. To test the hypothesis, we use vector error correction approach and Granger causality test. The results of the study show that all the sampled variables are cointegrated in the long-run, detecting dependence of the Russian economy on oil. Short-run effects’ estimation show that the Groningen effect is absent in the Russian economy. Pairwise Granger causality test confirms absence of the Dutch disease as well.

**Keywords:** oil prices, GDP sectors, Groningen effect, cointegration, causality, Dutch disease

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