**Transmission of U.S. Monetary Policy Shocks to Oil Exporting Countries:**

**A VEC Approach to Mundellian Trilemma**

**Dmitry Vladimirovich Burakov**

Department of Financial Markets & Banks,

Financial University under the Government of the Russian Federation, Moscow, Russia.

E-mail: dbur89@yandex.ru

**ABSTRACT:** In this article we test the hypothesis of oil price channel of US monetary policy transmission to oil-exporting countries under floating exchange rate regime and free capital mobility. On the example of Russia, using quarterly data for the period from 2000 to 2016, we study the long-term and short-term relations between the US effective federal funds rate, world oil prices (Brent) and the Bank of Russia’s key rate. The results of the VEC model show that the system of variables corrects its previous period disequilibrium at a speed 61,24% in one quarter. Based on the results of the Wald test, we find statistically significant causality running from world oil prices to interest rate policy of the Bank of Russia with the rate of adaptation to equilibrium by 10.21%. The results also show presence of causality running from US monetary policy to Bank of Russia’s key rate with the speed of adjustment towards equilibrium at 25,69%. Overall results of the study show that a negative shock in US rate leads to decline in oil prices (Brent), which in turn leads to an increase in Russia’s key rate. Revealed oil price transmission channel serves also as an additional argument against Mundell-Fleming Trilemma, according to which under floating exchange rate and free capital mobility, monetary policy of the country may be independent.

**Keywords:** world oil prices, transmission channel, Mundell-Fleming trilemma, monetary policy

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