

[The Effects of Geopolitical Oil Price Shocks](#)

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We develop a novel instrumental variable to identify geopolitical oil price shocks arising around significant geopolitical tensions and examine their transmission to the global oil market, key U.S. macroeconomic aggregates, and cross-border spillover effects on other commodity markets, output, and inflation. Geopolitical oil price shocks resemble severe oil supply shocks, leading to production declines and a much sharper increase in oil prices than conventional shocks. They are coupled with heightened uncertainty and induce a distinct inventory response: an initial short-term decline followed by long-term accumulation, reflecting market participants' concerns about future economic and oil market conditions. The cross-border spillover effects are significant for oil-intensive commodities, and are stronger for output and inflation in oil-importing economies and for countries with low energy inventories and high energy dependency on foreign supply.