

Business environment risk: The Middle East shock triggers a wave of downgrades | Credendo

In the framework of its regular review of the business environment risk, Credendo has upgraded two countries and downgraded fifty-one countries. The impact of the Iran war has triggered a wave of downgrades, particularly in the Middle East, and in Asia and Europe, being amongst the most exposed net oil and gas importing countries to the energy shock.

Business environment risk

Upgrades	From	To	Downgrades*	From	To
Argentina	G	F	Bahrain	F	G
Ghana	D	C	Bangladesh	E	F
			Belgium	D	E
			Bermuda	D	E
			Bhutan	D	E
			Botswana	D	E
			Cabo Verde	B	C
			Cyprus (South)	C	E
			Ethiopia	F	G
			Gambia	E	F
			India	D	E
			Jamaica	D	E
			Japan	D	E
			Jordan	E	F
			Kenya	D	E
			Korea (South)	C	D
			Kuwait	F	G
			Lithuania	C	D
			Maldives	E	F
			Mauritania	E	F
			Nepal	E	F
			Netherlands	D	E
			Pakistan	E	F
			Philippines	D	E
			Poland	D	E
			Qatar	F	G
			Saudi Arabia	E	F
			Senegal	E	F
			Singapore	B	C
			South Africa	D	E
			Sri Lanka	E	F
			Taiwan	C	D
			Thailand	D	E
			Türkiye	F	G
			United Arab Emirates	F	G
			United Kingdom	D	E
			United States	B	C
			Vietnam	D	E
			Zambia	D	E

*excluding downgrades of very small islands and countries and dependent territories.

- **Argentina: upgrade from G/G to F/G**

Argentina's economy rebounded strongly following the deep crisis in 2024. Robust real GDP growth of about 4% is expected again this year, mainly driven by rising oil and gas exports from Vaca Muerta as well as agricultural exports. At the same time, Argentina's tight monetary policy has led to an impressive disinflation: year-on-year inflation fell from a peak of nearly 300% in April 2024 to about 30% at the end of February this year. While inflation remains high, this sharp decline has allowed the central bank to cut policy rates. The results of the midterm elections at the end of last year strengthen expectations of sustained orthodox macroeconomic policies, reducing pressure on the exchange rate. In this context, Credendo upgraded Argentina's business environment risk rating from category G/G to F/G.

- **Asia: fourteen countries downgraded**

[The Iran war is hitting hard the Asian region](#). High reliance on oil and gas imports from the GCC countries and on workers' remittances makes South Asian countries (Bangladesh, India, Nepal, Pakistan) particularly exposed. Costlier energy, currency depreciation, flight cancellations, disruption to manufacturing production and weakening demand for Asian exports are the main channels of contagion to Asian economies in the short term. In those circumstances, risk classifications for many South and Southeast Asian countries have been reviewed downwards to category E/G or F/G. Singapore and East Asian countries (Japan, South Korea, Taiwan) have also been downgraded, albeit from lower risk categories. Looking ahead, the magnitude of the economic shock and the risk outlook for Asia will depend on the developments of the conflict (duration and damages to energy facilities).

- **South Africa: downgrade from D/G to E/G**

After a relatively positive trajectory in the months preceding the conflict in the Middle East, South Africa's economic outlook will be negatively impacted by the indirect effects of the conflict. Soaring import costs (fuel accounts for about 11% of total goods imports) and a weaker Rand against the rallying US dollar will impact the current account and fiscal balances and raise inflationary pressure, which in turn will put an end to the accommodative policy stance of the central bank. The resulting economic slowdown might somewhat be offset by positive projections for mining export returns. In this context, Credendo downgraded South Africa's business environment risk rating from category D/G to E/G.

- **Türkiye: downgrade from F/G to G/G**

Although the Turkish economy has shown significant resilience over recent years, Credendo decided to downgrade its business environment risk rating, as the ongoing conflict in the Middle East is likely to increase pressure on the exchange rate and inflation, particularly since Türkiye is an energy importer. Additionally, rising energy prices, lower demand from the Middle East and an expected drop in tourism are expected to lead to a larger current account deficit. The conflict is also likely to cause refugee flows to Türkiye, considering that the country is neighbouring Iran, and last but not least, in case of escalation, missiles might hit the country.

- **United Arab Emirates: downgrade from F/G to G/G**

Since the start of the conflict in the Middle East, the UAE has been amongst the main targets of Iran's retaliatory actions. Attacks have hit a range of civilian, commercial and strategic sites, including residential areas, luxury hotels, airport and port infrastructures, as well as US-related military and diplomatic assets, mainly in Dubai and Abu Dhabi. Given the importance of the services sector (particularly tourism, financial services, transportation) in the UAE's economy, economic activity is significantly impacted and will continue to be for as long as the conflict

continues. Another key risk stems from the hydrocarbon sector. Even excluding major attacks on hydrocarbon facilities, disruptions to gas and oil shipping through the Strait of Hormuz will have important economic repercussions. Despite ongoing diversification efforts, the UAE remains very reliant on the hydrocarbon sector, with the emirate of Abu Dhabi particularly exposed, as it hosts more than 90% of the country's oil reserves. While partial workarounds for oil exports to the Strait of Hormuz disruption exist, in particular the facilities in the emirate of Fujairah, they only cover a share of the UAE's total export capacity and are not risk-free as Fujairah has also been targeted by Iranian attacks. In the light of the unprecedented risks faced by the UAE, Credendo downgraded the UAE's business environment risk rating from category F/G to G/G.

- **Europe: six countries downgraded**

Europe is particularly exposed to the repercussions of the conflict in the Middle East due to its heavy reliance on imported energy, especially oil and gas. Disruptions to supply routes passing through the Strait of Hormuz have led to soaring energy prices, already impacting production costs and inflation in the region. An activity slowdown is expected due to rising uncertainty and lower business and consumer confidence. Energy-intensive European economies, where the risk level is not yet reflecting those challenges (Belgium, Lithuania, the Netherlands, Poland, the United Kingdom), or where large reliance on tourism revenue is expected to be affected by the conflict (Cyprus South), have been downgraded to category E/G (except for Lithuania which has been downgraded to category D/G).