Strong risk management framework pays off in unsettled times

Careful selection of risks and conservative provisioning is key to Credendo's risk management strategy and has helped us weather current economic and geopolitical turbulence. Over the past year, our risk management process has been enhanced through the broader adoption of automated decision-making, strengthened governance frameworks and enhanced ICT security.

Effective risk identification and management is central to Credendo's business. It enables us to assess how best to support our clients in increasingly unsettled times, as well as manage our own risk exposures to preserve our long-term financial health.

We have a robust risk management framework in place, which supports and guides our decision-making and risk assessments. Underwriting risk is the most material risk for Credendo, where the premium should be sufficient to cover our expected losses and our expenses. The technical provisions should be sufficient to cover our insurance liabilities vis-à-vis our policyholders. Underwriting risk also captures catastrophic risk linked to extreme or exceptional events taking place in a specific sector or country.

We assess our underwriting risk via quantitative models, where risks – specifically country risk, sector risk and debtor risk – are measured and given a particular rating, with some additional risk appetite statements related to the measurement. For instance, if a country is classified as a political risk category 7, we would not be able to grant any cover of non-payment risk in that country.

These current risk assessment models have been in place for a few years, but we have worked to continually enhance and improve them while also regularly backtesting the models in accordance with our model risk management and validation framework.

Our approach to risk management has undergone significant testing over the past few years due to global turbulence, such as Russia's invasion of Ukraine and Ghana's external default in 2022 and its related ongoing restructuring. By maintaining a conservative provisioning approach, we ensure that there are adequate reserves to cover any potential losses within our current portfolio.

Senegal is another country that is on our watchlist given the deterioration of the country's public finances. While there has been no default to date, we have taken measures to limit our exposure by downgrading the country and making some provisions. However, the country does not represent a significant exposure for Credendo. No major country has defaulted in 2025.

During 2025 and beyond, we have been very aware of the impact of the re-election of President Donald Trump and its repercussions throughout the world. We closely monitored the impact of trade wars and foreign policy interventions on both the world economy and geopolitical landscape, as well as the effect of Trump's decision to cut development aid to low-income countries in Sub-Saharan Africa. We continue to see the weaponisation of the economy by many of the world's large players – and we will continue to monitor the situation closely and adjust our risk models accordingly.

MARKET AND OPERATIONAL RISKS

We also need to closely monitor market risks which are related to Credendo's financial investments and all the volatility around these investments. For instance, our equity investments will be affected by stock market trends while sharp interest rate increases will have an impact on bonds. We use quantitative risk models to monitor such risks.

Other risks include operational, reputational and strategic risks, which are far more complex and difficult to measure in a quantitative way. Hence, we take a more qualitative approach to these risks, conducting a qualitative risk survey where we ask all the departments within Credendo to identify the risks they are encountering in their day-to-day processes. We examine how these risks are assessed in terms of possible impact and frequency, and look at whether controls or risk mitigations are in place that could diminish the possible impact.

Operational risks include information and communication technology (ICT) risks, which are increasingly on our radar given the introduction of new EU regulations on digital resilience which aim to ensure all EU companies working in the financial sector adhere to standardised ICT security requirements.

Requirements include having comprehensive governance in place to manage risks as well as the effective management of risks related to the outsourcing of ICT to third-party providers. The legislation is in part an attempt to thwart the threat of cyber-attacks that have been rising since Russia's invasion of Ukraine in 2022.

We are pleased to say we are almost fully compliant with the EU's Digital Operational Resilience Act (DORA), which was approved in November 2022 and came into force in early 2025 – having carried out an extensive ICT improvement plan throughout the last year. We now have a comprehensive ICT risk management framework that is compliant with DORA and the ISO 27001 certification – the international standard for information security management systems.

We have also made significant investments in our people – providing mandatory training and e-learning platforms to increase awareness among our staff of cyber risks.

THE RISE OF AI

One of the biggest developments in our risk identification and management processes is the increased use of AI tools. We have successfully integrated AI models into our risk assessment models, and our level of automated decision-making substantially increased during 2025. We also reviewed our auto-decision ceiling – the cap on the amount up to which an AI model can decide on accepting risk on.

However, while AI has numerous benefits, we still need to build and maintain strong controls and governance around its usage. With that in mind, we have implemented dashboards for the monitoring of model performance of our debtor risk assessment models.

We closely monitor our risk assessment models to ensure that AI models do not accept risks we would not want to accept. Such close monitoring is needed to manage risks to our reputation and customer loyalty and confidence in us.

CLIMATE CHANGE RISKS

We continue to include climate change risks within our medium-to-long-term political risk assessment models and adhere to related EU regulations.

While the global political discourse has started to shift away from climate change and towards other pressing topics such as defence, we still see climate as a risk to monitor – particularly in the long term.

You only have to consider the impact of climate-related incidents last year, such as the devastating floods affecting South and Southeast Asia or the destruction following Hurricane Melissa in Jamaica, to see the potential impact of such risks.

We also consider climate risks when monitoring our financial investments and their exposure to climate change. However, all our investments are typically low risk and 'climate-friendly' as we work with asset managers that also need to comply with climate change regulation.

ON THE HORIZON

As we consider the future, we inevitably see the widening usage of AI. While we already use it for risk assessment, there is potential to apply it to improve other operational efficiencies. For instance, we are currently working on using AI to take non-structured information and structure it into useable data that can be inputted into a risk model. However, whatever the future brings, our focus will always be on strong governance, effective risk management and providing an excellent service for our clients.

Supporting resilience in a fragmented world

The start of Trump's second term shook global trade, the economy and the world order in 2025. Even though the impact of the US trade war was softer than feared, thanks to large concessions from partners and the lack of retaliation measures (except from China), the impact of unpredictable, transactional, protectionist, nationalist and coercive US policies will be felt in the years to come.
The end of the rules-based world trade and security order, the intended return to a world built around spheres of influence, and geoeconomic fragmentation will increase geopolitical and conflict risks. Uncertainty will remain stubbornly high, notably when it comes to supply chains, with the USA and China leading the weaponising of their economic and political power. In this 'new normal' world full of uncertainty, navigating through riskier waters with adequate risk assessment and market diversification will be crucial for companies.

RAPHAËL CECCHI,

Senior Country and Sector Risk Analyst at Credendo

"Uncertainty will remain stubbornly high, notably when it comes to supply chains, with the USA and China leading the weaponising of their economic and political power."

Geopolitical, economic and trade context and outlook

Beating most predictions, the first year of Trump's second term represented a big shock to US institutions and democracy, and to the world and its relationship with the USA. Trump and his MAGA movement's controversial policies are reshaping the USA and the world, accelerating ongoing trends such as the erosion of the US-led rules-based world order, an uncertain future for NATO and diversification of supply chains. It has also in several cases turned things upside down, including the cessation of nearly all USAID, erosion of US Treasuries as a haven asset, US military threat against NATO territory Greenland, coercive US trade policy against allies and explicit support to far-right parties in Europe. By announcing huge import tariffs against many countries with a surplus vis-à-vis the USA, the US trade war shook world trade and financial markets. The USA's attack against free global trade alongside sanctions, new trade rules and national security concerns surrounding supply chains are redefining trade architecture and making trade more costly. While many countries, including the EU and Japan, negotiated unfavourable trade deals to obtain partially reduced US tariffs, only China retaliated through its rare earths leverage, compelling the USA to suspend its trade war against China.

Besides, the USA definitively abandoned its soft power and export of democratic values, opting for the threat of military action to reach its geopolitical goals. Not only has Trump resurrected the Monroe doctrine to allow US hegemony in its sphere of influence on the American continent, he intends also to maintain US influence across other regions to defend its interests and ensure access to critical minerals. This radical sudden change of US policy paradoxically presents

China as a more stable, reliable and open partner, and will encourage countries to reduce their long-term exposure to the USA at trade, as well as their economic and security level, accelerating geoeconomic fragmentation, friendshoring and use of multiple currencies (first the renminbi) in South-to-South trade and lending. As the year 2025 highlighted an accelerating weaponisation of the economy, particularly by the USA (via trade war and security alliances) and China (e.g. restrictions on rare earths), 'middle powers' such as the EU, India, Brazil, Türkiye and Canada, will aim for strategically reducing (over)dependence on both US and Chinese superpowers. That explains the conclusion of many bilateral free trade agreements following lengthy negotiations (e.g. India-UK, EU-Mercosur) in 2025 to diversify export markets and supply chains away from the USA. Still, US dominance in high-tech, economic, military and financial affairs (US dollar and large capital markets) will preserve its unique power for a very long time. Moreover, global protectionism further rose, particularly vis-à-vis China in reaction to flooding the market with low- to high-value products, endangering local industries worldwide. Hence, the EU, Brazil, Mexico, Thailand and Türkiye for instance, imposed trade restrictions against several Chinese products and further measures are expected.

Worryingly, US imperialism and the new chaotic world order are elevating conflict risks to their highest levels in decades as illustrated by multiple conflicts resuming (India-Pakistan, Israel-Iran, Thailand-Cambodia), breaking out (Pakistan-Afghanistan) or deteriorating (Sudan) in 2025. While the US-China rivalry is a central feature for economic and military global leadership, more conflicts are to be feared given the practical absence of world rules, the retreat of the world's police officer and higher tolerance for military actions.

Meanwhile, the war in Ukraine continued amid uncompromising talks between both sides, while the EU came to ensure the full financing of military supplies to Ukraine. The humanitarian crisis worsened in the protracted civil war in Sudan and in the Gaza strip. For the latter, a US-drafted peace plan was signed between Israel and Hamas in October, paving the way to a future end of the conflict. Still, given persisting fighting, mistrust between both sides and unresolved contentious issues, lasting peace looks very uncertain. That was before the Middle East fell into an unprecedented broader conflict as from 28 February 2026 when the USA and Israel massively struck Iran's military and industrial targets, eight months after having already struck Iran's military and nuclear capacities. Iran's retaliatory strikes on the Gulf's critical infrastructures, particularly energy, and de facto closure of the Strait of Hormuz led to a severe global energy shock. In Asia, conflict risks remained high with the worst armed episode in decades between India and Pakistan, while Taiwan saw unprecedented Chinese military drills amid perceived lower US deterrence and a nearing 2027 deadline for the Chinese army to be capable of successfully invading the island. More generally, weakened US alliances in Asia and China's assertiveness will boost an already rapid arms build-up in the region (also taking place in Europe and in the MENA (Middle East and North Africa) region), de facto increasing conflict risks, including in the South China Sea and North Korea.

In spite of US tariffs, substantial aid cuts (harming particularly Africa), rising trade restrictions and geopolitical risks, the global economy showed impressive resilience (growing by 3.4% while trade in volume jumped by 5.1%), supported by large export front-loading in anticipating of the implementation of huge US tariffs, much reduced US tariffs (albeit high in recent history), intensifying export market diversification and the AI boom. Moreover, the wave of Chinese exports, including those redirected from the USA to other regions, led to a record trade surplus for China.

Significantly eased financial conditions, via a weakened US dollar and cuts in Fed/ECB interest rates, lower inflation, booming stock markets and lower oil prices supported domestic demand and eased the external debt service burden among emerging and developing countries which benefited from improved market access. However, the outlook for 2026 looked more challenging for trade and financial stability amid the Iran war fallout and deteriorated fiscal positions. Public debt levels and general uncertainty are historically high, exposing the most vulnerable countries to potential sovereign debt defaults.

While the world's attention is occupied by national security considerations (e.g. a waned EU Green Agenda), pro-fossil fuel policies and efforts to hinder global climate change action demonstrate the focus on achieving solely short-term gains over mitigating long-term disasters and related costs.

As in past years, climate change intensified in 2025, sparing no region from extreme natural disasters such as major floods in Southeast Asia, the unprecedented Melissa hurricane in the Caribbean region, heatwaves in the Middle East, wildfires in California and in the Mediterranean, or the record melting of glaciers.

Therefore, climate risks will inevitably continue to increase country risks in the future as the livelihoods of millions of people worsen, exacerbating wealth inequalities, expanding social instability and violent protests and leading to the deterioration of public finances and debt sustainability.

Although renewables will continue to be implemented at great scale outside the USA, the AI boom will bring huge extra challenges, likely placing more pressure on the supply of fossil fuels, weighing on decarbonation efforts and intensifying water stress.

Evolution of Credendo's country risk classifications

GENERAL TREND FOR COUNTRY RISK RATINGS IN 2025

Against the odds, the net annual trend in country risk ratings was generally positive, certainly when it comes to political risk. However, there was a clear distinction between the first semester, which saw the slightly negative trend of 2024 continue on the back of the announced aggressive US trade war and global economic and financial uncertainty, and the second semester, which went into a firm positive trajectory. For the **short-term (ST) political risk**, which largely assesses the country's liquidity, 17 upgrades (including one small state) were recorded on the back of favourable financial conditions for emerging markets. At a regional level, Sub-Saharan Africa dominated with six upgrades, followed by the MENA region (four), Emerging Market Europe and CIS (Commonwealth of Independent States) countries (three), Latin America (two) and Asia (one). A total of eight downgrades – i.e. less than half of upgrades – were decided in two regions, five for Asia (including two small Pacific states) and three in Sub-Saharan Africa. The positive trend was even more pronounced for the **medium- to long-term (MLT) political risk**, confirming the 2024 trend. Indeed, eleven countries were upgraded, dominated again by Sub-Saharan Africa (six: Cabo Verde, Gambia, Mauritania, Namibia, Togo and Zambia) and followed by MENA and Emerging Market Europe and CIS countries (two each: Qatar and Saudi Arabia, Tajikistan and Türkiye). Latin America recorded one upgrade (Ecuador), Asia none. On the other side, only three downgrades were decided, all in Sub-Saharan Africa (Botswana, Gabon and Senegal).

The picture for the **business environment risk**, albeit also positive in total, was more balanced. Upgrades reached 37 notches (of which nine small countries) compared to 31 (of which fourteen small countries) for the downgrades, to a great extent thanks to Sub-Saharan Africa (eighteen notches including two small countries), followed by Asia (five including three pacific islands) and the EU (five). Three upgrades were decided for Emerging Market Europe and the CIS (including one small state), the MENA and Latin American regions. As for the downgrades, Asia dominated with eight countries (including four small Pacific states), ahead of Latin America (seven countries), Europe (seven countries of which four small territories), Sub-Saharan Africa (five countries of which Botswana and Seychelles by two notches). Only one downgrade was recorded for the MENA region and Emerging Market Europe and CIS countries.

ASIA

Asian countries had a very volatile and uncertain year, exposed to the abrupt threat of high tariffs on their key exports of goods from the USA, a major trade, economic and, for some, security partner. Asymmetric trade agreements offering large concessions to the USA in exchange for substantial US import tariff relief and many exemptions for high-tech products, helped to alleviate the negative trade impact.

Moreover, export front-loading, rapid shifts in regional supply chains towards more diversified and reliable partners and the global AI boom benefiting countries (e.g. Korea, Taiwan, Malaysia and Vietnam) with a successful electronics sector were other mitigating and supportive factors. Although GDP growth decelerated in the ASEAN (Association of Southeast Asian Nations), it stabilised for emerging

However, the US threat of high rates hitting 'transhipped goods' will be a looming risk for many countries integrated in supply chains and with a wide trade surplus with the USA. The great power competition will remain another major risk for most countries. Faced with a complex balancing stance between the USA and China, they will reduce their dependence on the USA in the long-term by continuing their quest for new trade and security agreements with more stable and less unpredictable partners, and in general deepen further intraregional economic integration.

In 2025, several governments were also shaken by mass Gen Z-led protests, which reflected youth discontent about a broad range of factors (corruption, elite privileges, lack of job prospects, wealth inequalities) and spread across several countries in the region. Unrest was particularly severe in Nepal where the government fell, emulating Bangladesh's example of 2024.

The Chinese economy showed resilience in a challenging year characterised by an aggressive trade war with the USA (suspended for one year in November), increased geopolitical risks, a protracted real estate crisis, low consumer confidence and continued deflation. The fast expansion of manufactured exports – increasingly with a higher value added – especially to Southeast Asia, Europe and Africa, were a crucial driver of GDP growth (to 5%) in 2025 and will continue to be so this year. Besides, economic self-sufficiency and global high-tech dominance will remain two key priorities for Beijing.

The regional evolution of country risk classifications was stable (for MLT political risk) to negative. Downgrades exceeded upgrades for both the ST political risk and business environment risk. For the former, Indonesia, Vietnam and Taiwan's ratings lost one notch whereas only Timor Leste improved by one. For the latter, Indonesia and Vietnam were also downgraded, along with India and Nepal, while Malaysia and Pakistan were upgraded.

LATIN AMERICA

Trump's inauguration rapidly ushered in a new geopolitical reality for Latin America. After decades of relative neglect, the region moved back to the centre of US strategic attention. The USA envisages the whole western hemisphere being within its sphere of influence, setting the stage for a more muscular approach on the region's role in drug-trafficking (Mexico, Colombia), migration (Central America and the Caribbean), as well as strong Chinese ties (Peru, Panama, Venezuela, Cuba). At the same time, the new geopolitical shift also created opportunities. Central America's comparatively lower US tariffs allowed it to outperform Asian competitors in certain sectors, while US nearshoring and occasional US financial support provided tailwinds. Nevertheless, economic growth, though resilient against protectionist US policies, remained unspectacular. Sticky inflation gradually eased, allowing for interest cuts and adding breathing room for many economies.

The regional evolution of country risk classifications was positive. There were two upgrades for ST political risk classifications. Argentina and El Salvador were both upgraded to category 6/7 and 4/7 respectively amid rising liquidity and the agreement of vital new IMF programmes. For MLT political risk, Ecuador was upgraded to category 5/7. This reflected improved macroeconomic fundamentals, including decreasing solvency ratios compared to their 2020 peak, as well as continued commitment to orthodox economic policies, reinforced by the re-election of President Noboa.

Looking ahead, the region entered a busy electoral period that will determine how far to the right Latin America's political pendulum will swing, amid continued risks of US political interference, as seen in Honduras and Argentina. Fiscal consolidation remains crucial as many public debt levels are elevated. Fiscal consolidation can weigh further on economic growth and trigger unrest but without it, sovereign debt defaults loom. Climate change-induced natural disasters can also adversely affect economies producing large volumes of agri-goods for export, while many countries heavily rely on hydropower for their energy. Furthermore, Latin America, already the region with the highest homicide rates globally, continues to grapple with rising gang-related violence, which weighs on social stability and political violence risks. On the upside, the EU-Mercosur trade agreement, if ratified, and the global green transition offer opportunities.

JOLYN DEBUYSSCHER,
Country and Sector Risk Expert at Credendo

"Trump's inauguration rapidly ushered in a new geopolitical reality for Latin America. At the same time, the new geopolitical shift also created opportunities."

JONATHAN SCHOTTE,

Country and Sector Risk Analyst at Credendo

"Sub-Saharan Africa continued to face multiple overlapping conflicts and security crises."

LOUISE VAN CAUWENBERGH,

Country and Sector Risk Analyst at Credendo

"Despite the challenging environment, momentum for economic growth in Sub-Saharan Africa remained strong in 2025 at 4.5%."

SUB-SAHARAN AFRICA

Sub-Saharan Africa continued to face multiple overlapping conflicts and security crises. Jihadist violence in the Sahel reached critical levels with the fuel blockade of Bamako. Jihadist control over vast territories including Mali, Burkina Faso and Niger reflects the failure of Russian mercenaries to provide security support to these junta-led nations. The spread of jihadist activity towards West Africa's coastal nations like Benin, Côte d'Ivoire and Ghana has become an even larger concern. Sudan's crisis deepened amid continued atrocities by the Rapid Support Forces in Darfur, while neighbouring South Sudan experienced rising political tensions, heightening concerns about a return to conflict. In the Horn, tensions between Ethiopia and Eritrea intensified, and in the Great Lakes region violence persisted in eastern DRC, where M23/AFC advances in North and South Kivu fuelled renewed tensions with Rwanda. In Nigeria, violent attacks and a growing number of fatalities even drew intervention threats from US President Trump.

The shift towards more autocratic forms of government continued in 2025, depicted by several flawed or rigged elections, while military coups took place in Guinea-Bissau and Madagascar where military leaders seized power following Gen Z-led protests.

Despite the challenging environment, momentum for economic growth in the region remained strong in 2025 at 4.5%, underpinned by improved terms of trade and declining inflation. A new commodity boom is leading to geopolitical rivalry over critical minerals and could hold great potential when transformed beyond exploitative patterns. Therefore, complementary investments in local processing and value addition will become a major focus in many countries.

Just like in 2024, African exchange rates continued to stabilise, assisted by a weaker US dollar, which is also helping to cut debt service payments and ease inflation. Liquidity levels continued to recover, supported by regained access to Eurobond financing by some countries (Kenya, Côte d'Ivoire, Senegal, Gabon, Nigeria, Egypt, Benin and Angola) and favourable commodity price trends. In 2026, commodity exporters with diversified baskets are most likely to show the most resilience in terms of liquidity.

Sub-Saharan Africa's regional public debt stock remained stable in 2025, with no new defaults this year – marking the second year in the row of no defaults –, even though debt vulnerabilities remain high. Senegal is on the brink of default following the unfolding of a huge hidden debt scandal under the former government. Zambia and Ghana continued to advance their Common Framework restructuring processes, while Ethiopia's negotiations remained stalled. In the coming year, borrowing costs are expected to remain high and limited fiscal space will continue to constrain government options for dealing with unforeseen shocks. Unreliable US trade policies have accelerated the shift in African trade relations, while governments are obliged to look for alternative funding due to the global drop in foreign aid flows. A key point of focus will be to not replace aid dependency with a debt trap, knowing that at present, 21 low-income Sub-Saharan African countries are already at 'high risk of debt distress' or 'in debt distress' according to the IMF. Finally, the impact of climate shocks is causing supply shortages and raising food imports and inflationary pressure, while the humanitarian impact is leading to social unrest.

As in 2024, changes in political risk ratings in 2025 were dominated by upgrades. For the ST political risk, there were six upgrades (Burundi, Cabo Verde, Côte d'Ivoire, Kenya, Uganda and Zambia) and three downgrades (Botswana, Djibouti and Madagascar). Also, for the MLT political risk, six countries were upgraded (Cabo Verde, Gambia, Mauritania, Namibia, Togo and Zambia), while three were downgraded (Botswana, Gabon and Senegal). As for the business environment risk, the positive trend of 2024 was sustained in 2025, with ten upgrades and four downgrades.

MIDDLE EAST AND NORTH AFRICA (MENA)

The geopolitical situation in the Middle East was highly unstable in 2025, with elevated regional tensions and spikes in conflict intensity, particularly in the first part of the year. Key hotspots included the collapse of the January Gaza ceasefire in March, intensified Israeli military operations in Lebanon, and the 12-day conflict between Israel/the USA and Iran in June. Although subsequent ceasefires, notably between Iran and Israel in June and in Gaza in October, eased hostilities, the absence of steps for a durable stabilisation and progress in addressing underlying regional grievances kept tensions elevated throughout the year. On 28 February 2026, the long-feared confrontation between Israel/the USA and Iran materialised when the former's large-scale 'Operation Epic Fury' military campaign struck the Mollah regime – killing the supreme leader – and critical infrastructures. While regional escalation risks persisted and the war outcome was unpredictable, the Iran war is likely to have profound consequences on future regional security and economic developments.

Despite heightened regional tensions, GDP growth in the MENA region strengthened from 2.2% in 2024 to 3.6% in 2025. The recovery was supported by increased oil production under the OPEC+ agreement, macroeconomic stabilisation reforms (notably in Egypt and Jordan) and diversification efforts in oil-exporting countries. Growth accelerated across both oil-importing and oil-exporting countries. Nevertheless, structural challenges persisted: some oil-importing countries (Egypt, Tunisia, and Jordan) remained burdened by persistent

macroeconomic imbalances, while moderating oil prices increased fiscal and external pressures on oil exporters with weaker fundamentals (Algeria, Bahrain, and Iraq), unlike most GCC (Gulf Cooperation Council) countries (excluding Bahrain), which continued to benefit from sizable macroeconomic buffers. However, in the reporting year, the Iran war's related disruptions to oil and gas supplies sharply harmed the economic outlook of most countries, starting by Gulf oil exporters.

In this context, the trend in 2025 was broadly positive with several countries upgraded. For ST political risk, Iraq was upgraded from category 7/7 to category 6/7 amid easing domestic security risks. Similarly, Egypt was upgraded from category 6/7 to category 5/7, reflecting stabilising macroeconomic conditions, while Jordan and Oman were upgraded from 5/7 to 4/7 and from 3/7 to 2/7 respectively, amid resilient economic performance despite significant headwinds. For similar reasons, the business environment ratings of Egypt, Morocco, and Tunisia were upgraded. Algeria, however, was downgraded amid pressures stemming from a weak policy environment and declining energy prices. In 2026, the Iran war led to a wave of downgrades in GCC countries for both the ST political risk and business environment risk. Regarding the MLT classification, although Qatar was upgraded from 4/7 to 3/7 and Saudi Arabia from 3/7 to 2/7, both supported by the countries' large external assets, the Gulf war of 2026 darkened their MLT risk outlook.

EMERGING MARKET EUROPE AND CIS COUNTRIES

The generally positive year for the region translated into favourable risk rating developments with three upgrades for the ST political risk (Tajikistan, Uzbekistan and Türkiye) and two upgrades for the MLT political risk (Tajikistan from 7/7 to 6/7 and Türkiye from 5/7 to 4/7). Only the business environment risk saw one downgrade (Kazakhstan), yet less than the two recorded upgrades (Albania and Moldova). The upgrade for Türkiye's ST and MLT political risk ratings followed significant improvement in its external liquidity and access to financial markets – even though these remained volatile – thanks to the adoption of more orthodox monetary policies after President Erdoğan's re-election in May 2023. The implementation of these policies has gradually reduced macroeconomic imbalances, helping to narrow the current account deficit and steadily lower inflation, although it remained elevated.

The war in Ukraine continued to shape economic and political developments in the region, with Ukraine facing mounting pressure from Russian aggression while negotiations between Russia, Ukraine and the USA over a ceasefire yielded no breakthrough in 2025. In the South Caucasus, the security situation between Armenia and Azerbaijan improved following progress on a US-brokered peace agreement, although the deal has not yet been formally ratified. Central Asia attracted unusually high levels of attention from large and middle powers, drawn to the region's promising investment and trade prospects. Indeed, in a context of increasing geopolitical risks, supply chains diversification and the race for critical minerals, the region's political stability combined with its natural resource wealth and strategic geographic position looked particularly attractive. As a result, Central Asia was one of the fastest growing regions in 2025, driven by domestic demand, rising investments and trade (notably with Russia and via the 'Middle Corridor' linking China to Europe) in a year of heightened trade and economic connections among Central Asian states. Strong FDI commitments announced by the USA, EU, China and Gulf countries should support high GDP growth in the coming years.

ADVANCED EUROPE

The first half of 2025 was marked by significant economic uncertainty across Europe, largely stemming from the threat of US import tariffs following Trump's accession to office in January and fears of a trade war. In July, a deal capped most US tariffs on European exports at 15%, easing tensions but keeping high tariffs on steel and aluminium. While this brought some stability, businesses remained uncertain about the future US tariff policy. Other competitiveness issues resulting from higher energy prices in Europe than in the USA and China, and competition from increasing cheap Chinese exports volumes continued to weigh on the manufacturing sector, while political uncertainty reined into consumer confidence in countries like France. In spite of those challenges, real GDP growth remained resilient in the EU27, with a 1.6% growth year-on-year, supported by domestic demand. Our business environment risk ratings were downgraded for three countries and upgraded for four countries within the Advanced Europe region during the year.

Security risks, on the other hand, have continued to mount. Since Russia's full-scale invasion of Ukraine in February 2022, Europe has faced a sharp intensification of hybrid warfare tactics orchestrated by Moscow. These tactics include cyberattacks, disinformation campaigns, sabotage operations, arson, espionage and increasingly frequent and repeated airspace violations by drones and military aircrafts. Throughout 2025, several European countries reported rising signs of hybrid activities, including drone and fighter-jet intrusions and suspected sabotage incidents targeting critical infrastructure. As a result, the political violence risk ratings for all European Union countries, Switzerland and the United Kingdom were downgraded in December 2025.

PASCALINE DELLA FAILLE,

Country and Sector Risk Manager at Credendo

"In spite of significant economic uncertainty, real GDP growth remained resilient in the EU27, with a 1.6% growth year-on-year, supported by domestic demand."