

Are Credit Rating Agencies Punishing Petrostates for Energy Transition Risks?

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✎ EXECUTIVE SUMMARY ✎

Motivations for the Research

The global shift toward renewable energy threatens countries whose economies depend heavily on oil exports. Nearly 25 countries rely on oil revenues for at least 10% of their national income, yet forecasts suggest oil demand could halve by 2050. This raises a critical question: are major credit rating agencies—Standard & Poor's, Moody's, and Fitch—already factoring these long-term risks into their assessments of oil-dependent countries?

Credit ratings determine borrowing costs for governments, making this question crucial for petro-state financing. Since ratings are forward-looking, they may signal economic pressures before current data reflects energy transition impacts. Understanding these dynamics provides insight into both the timeline and financial implications of moving away from fossil fuels.

Research Approach

This study analyzed 27 years of credit rating data from 1992 to 2019, covering 153 countries. Researchers defined petrostates as countries where oil income represents at least 10% of economic output or \$300 per capita annually. Using statistical methods that controlled for traditional rating factors like economic growth and political stability, they compared how agencies treated petrostates versus other countries over time.

The analysis combined quantitative assessment of rating patterns with qualitative review of actual agency reports, providing comprehensive insight into both what agencies are doing and why they're doing it.

Main Findings

The research reveals that rating agencies are gradually adjusting their treatment of petrostates in three key ways, rather than implementing dramatic downgrades.

First, petrostate ratings have experienced modest but measurable declines since 2010. Oil-dependent countries saw average ratings drop by less than one-tenth of a grade, while oil-rich countries' ratings remained flat.

Second, petrostates receive less benefit from high oil prices than historically. Before the late 2000s, rising oil prices typically improved petrostate ratings. Since then, this positive relationship has largely disappeared, with ratings failing to improve even during strong oil price periods between 2010-2014 and 2018-2019.

Third, economic diversification has become increasingly critical. Countries with varied economies beyond oil receive better ratings, while those concentrated in oil face growing penalties. This

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effect has intensified over time, suggesting agencies view diversification as essential protection against transition risks.

Rating agency reports confirm these patterns while explicitly stating that energy transition concerns primarily affect future rather than current assessments. However, agencies are already incorporating these risks indirectly through greater emphasis on diversification and treating oil price increases as potentially temporary.

Policy Implications and Applications

These findings suggest economic diversification is becoming financially necessary for petrostates, not just economically prudent. Countries failing to develop alternative revenue sources may face progressively higher borrowing costs, creating challenges precisely when they need capital for economic transformation.

The gradual nature of current adjustments may signal more dramatic changes ahead. As energy transition timelines become clearer, petrostates could face sudden downgrades, potentially creating simultaneous revenue decline and reduced borrowing capacity.

For policymakers, these results highlight the importance of supporting petrostate diversification before rating pressures intensify. International financial institutions should prioritize helping oil-dependent countries build economic alternatives while they retain access to affordable capital.

The research also suggests rating agencies may need updated methodologies for handling unprecedented global transitions. Current approaches treating energy transition as distant, uncertain risk may leave markets unprepared for accelerating change.

From a broader perspective, these findings demonstrate that financial markets are already pricing climate-related risks without explicit regulatory requirements. This market-driven process may accelerate energy transition incentives while creating new challenges for fossil fuel-dependent economies. Understanding these dynamics is essential for designing transition policies that balance environmental goals with economic stability in affected regions.