

# BEST'S COUNTRY RISK REPORT

## Venezuela CRT-5

August 22, 2018

Region: Latin America

[Country Risk Criteria Procedures](#)

[Guide to Best's Country Risk Tiers](#)

- The Country Risk Tier (CRT) reflects A.M. Best's assessment of three categories of risk: Economic, Political, and Financial System Risk.
- Venezuela, a CRT-5 country, has very high levels of economic, political, and financial system risk. The country has experienced a severe economic contraction and GDP is projected to decline 15% this year. Inflation has spiraled out of control, with estimates expecting it to reach above 1000% in 2018. The economic crisis has destabilized the political system and provoked pervasive civil unrest.
- The map depicts the countries A.M. Best evaluates in Central America, South America and the Caribbean. The majority of Central and South American countries are categorized as CRT-3, CRT-4 or CRT-5, with the exception of Chile.



Economic Risk



Political Risk



Financial System Risk

- Country Risk Tier 1 (CRT-1) Very Low Level of Country Risk
- Country Risk Tier 2 (CRT-2) Low Level of Country Risk
- Country Risk Tier 3 (CRT-3) Moderate Level of Country Risk
- Country Risk Tier 4 (CRT-4) High Level of Country Risk
- Country Risk Tier 5 (CRT-5) Very High Level of Country Risk

## Regional Summary: Latin America

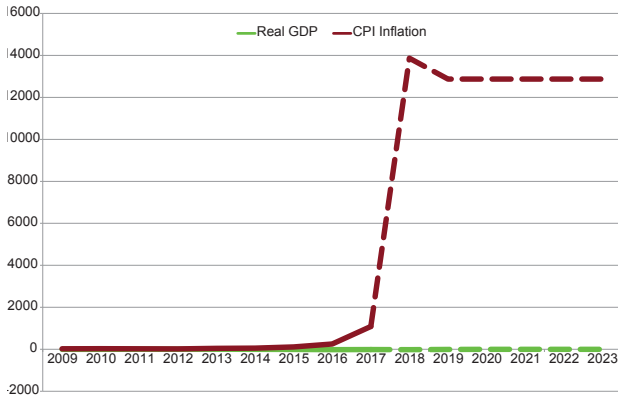
- Growth in the region is likely to continue in 2018 due to expanding global growth, rebounding commodity prices, and strengthening domestic demand. However, risks are tilted to the downside owing to rising domestic political uncertainty, currency volatility, growing trade protectionism, rising fiscal deficits, and negative spillover effects from international financial markets.
- Conditions are largely positive, but several countries in the region are experiencing heightened risk. Years of unsustainable social programs, higher spending, and growing corruption have led to significant challenges for Venezuela, as well as Brazil and Argentina, albeit to a lesser extent.
- So far this year, there have been several presidential elections in Colombia, Mexico, and Venezuela; Brazil's is scheduled for later this year. The election environment is complex owing to mounting social conflicts, corruptions scandals, and policy uncertainty. According to the IMF's 2017 estimates, four countries are responsible for the largest proportion of the region's economic output: Brazil at USD2,055 billion, Mexico at USD1,149 billion, Colombia at USD309 billion, and Venezuela at USD210 billion.

Vital Statistics 2017		
Nominal GDP	USD bn	210.09
Population	mil	31.4
GDP Per Capita	USD	6,684
Real GDP Growth	%	-14.0
Inflation Rate	%	1087.5
United Nations Estimates		
Literacy Rate	%	97.1
Urbanization	%	89.1
Dependency Ratio	%	52.6
Life Expectancy	Years	76.0
Median Age	Years	28.3
Insurance Statistics		
Insurance Regulator	Superintendency of Insurance Activity	
Premiums Written (Life)	USD mil	40
Premiums Written (Non-Life)	USD mil	1,673
Premiums Growth (2016 - 2017)	%	-68.1
Regional Comparison		
	Country Risk Tier	
Venezuela	CRT-5	
Argentina	CRT-5	
Brazil	CRT-4	
Chile	CRT-2	
Colombia	CRT-4	
Peru	CRT-3	

Source: IMF, UN Swiss Re, Axco and A.M. Best



### Economic Growth (%)



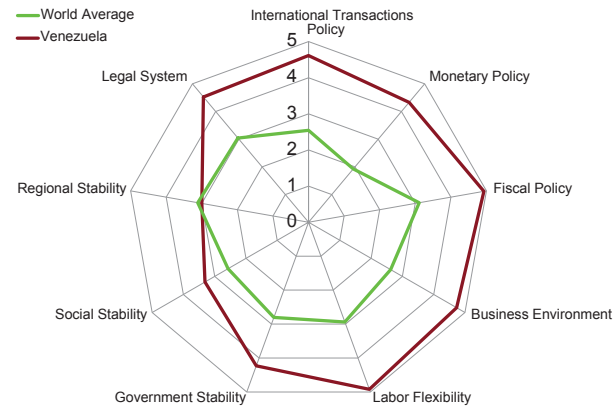
Source: IMF World Economic Outlook and A.M. Best

### Economic Risk: Very High

- Venezuela's economy is facing severe stagflation. GDP is estimated to contract by 15% in 2018, and inflation has reached unsustainable levels. Unemployment is running in excess of 25%. The steep decline in the economy is unlikely to reverse, in the absence of extraordinary stimulus or significant economic and fiscal policy changes.
- Venezuela possesses one of the world's largest oil reserves, and the economy relies heavily on oil revenues, despite recent declines in oil production.
- The president's political stance is likely to prevent much needed economic reform, potentially causing further deterioration in the country's economic conditions. Inflation and a widespread shortage of consumer goods have caused spending to plunge.
- The Maduro government continues to expropriate and nationalize privately held assets across all sectors of the economy, while not recognizing settlement decisions by international courts of law.

### Political Risk Summary

Score 1 (best) to 5 (worst)

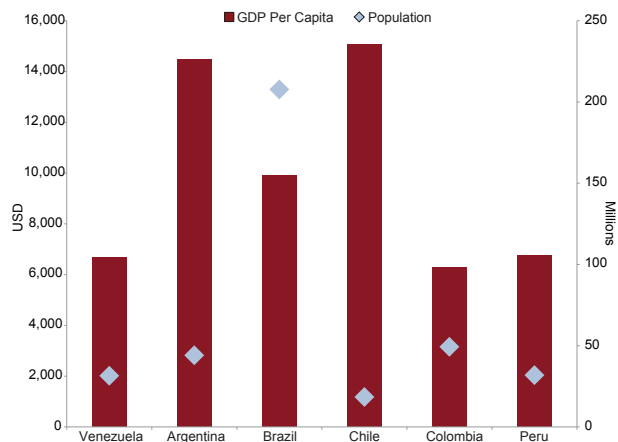


Source: A.M. Best

### Political Risk: Very High

- Venezuela's political situation is deteriorating. President Nicolás Maduro was re-elected—his term runs through 2025—amid ongoing allegations of fraud. He is not recognized by international parties such as the EU.
- The National Assembly is pro-government and has been rewriting the constitution, a move that significantly raises political uncertainty and is likely to further consolidate political power in the executive office.
- Contract enforcement is poor, and the government's expropriation of private property is common. The risk of expropriation is escalated by the intervention of the National Assembly. Business confidence is depressed and foreign investment has declined sharply.
- The courts are subject to heavy political influence and are often used to penalize political opponents. Venezuela's judiciary is ranked the least independent of 137 countries by the World Economic Forum.
- Political instability is worsened by rising crime. Violent and widespread anti-government protests are likely to continue, raising property damage risks.

### GDP Per Capita and Population



Source: IMF and A.M. Best

### Financial System Risk: Very High

- The Superintendency of Insurance Activity is responsible for the supervision of the insurance sector.
- The tax system in Venezuela is relatively well-developed, but tax evasion is high.
- Because of the severe economic crisis, Venezuela's foreign exchange reserves have diminished, and the external liquidity gap has widened.
- The IMF has recommended stronger efforts to improve transparency in economic data, which otherwise will intensify speculation and mistrust in the government.