Venezuela

**CRT-5**

August 22, 2019

**Region: Latin America**

**Country Risk Criteria Procedures**

**Guide to Best’s Country Risk Tiers**

• The Country Risk Tier (CRT) reflects AM 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 and prolonged economic contraction, and GDP is projected to decline further in 2019. Inflation has spiraled out of control, with estimates expecting it to reach above 10,000,000% in 2019. The economic crisis has destabilized the political system and provoked pervasive civil unrest.

• The map depicts the countries AM 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.

### Regional Summary: Latin America

• Economic growth has slowed in Argentina, Mexico and Brazil—some of the region's major economies—due to escalating trade tensions and volatile currency and commodity markets. The impact of these factors will be amplified by country-specific vulnerabilities. Additionally, the potential for stricter trade protectionist policies brings uncertainty to the region’s growth outlook.

• Modest growth and tame inflation levels has allowed several of the region’s central banks to hold interest rates at relatively low levels—the notable exception being Mexico's central bank, which has kept interest rates elevated to support the peso amid concerns over inflation and currency weakness.

• Structural reforms are needed to diminish reliance on unsustainable social programs and the resulting higher levels of public debt. Debt reform is also needed, to address growing corruption and its effects on economic potential.

• The ongoing humanitarian crisis in Venezuela has seen a significant outflow of refugees seeking asylum in neighboring countries, which has the potential to strain resources in neighboring host countries.
**Economic Risk: Very High**

- The economy has been in a protracted recession since 2014, with the current outlook remaining bleak. GDP has declined due to limited oil production even though the country has one of the world’s largest oil reserves.
- Sanctions against the government have been in place since 2017. Over time, the sanctions against the government and key individuals have become broader and deeper in scope. The most recent round of sanctions were announced in August of 2019, and froze the country’s assets in the US and barred transactions.
- 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 led to a plunge in spending. Additionally, electricity outages are frequent.

**Political Risk: Very High**

- Venezuela’s political situation continues to deteriorate. President Nicolás Maduro was re-elected—his term runs through 2024—amid ongoing allegations of fraud. His presidency is not recognized by more than 50 nations, including the US and most of the EU and Latin American countries, who instead support the head of the National Assembly, Juan Guaidó.
- Despite Maduro losing popular support, he is still being backed by top military officials and controls most of the state’s institutions.
- Contract enforcement is poor, and government 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.

**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.