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a FitchSolutions Company

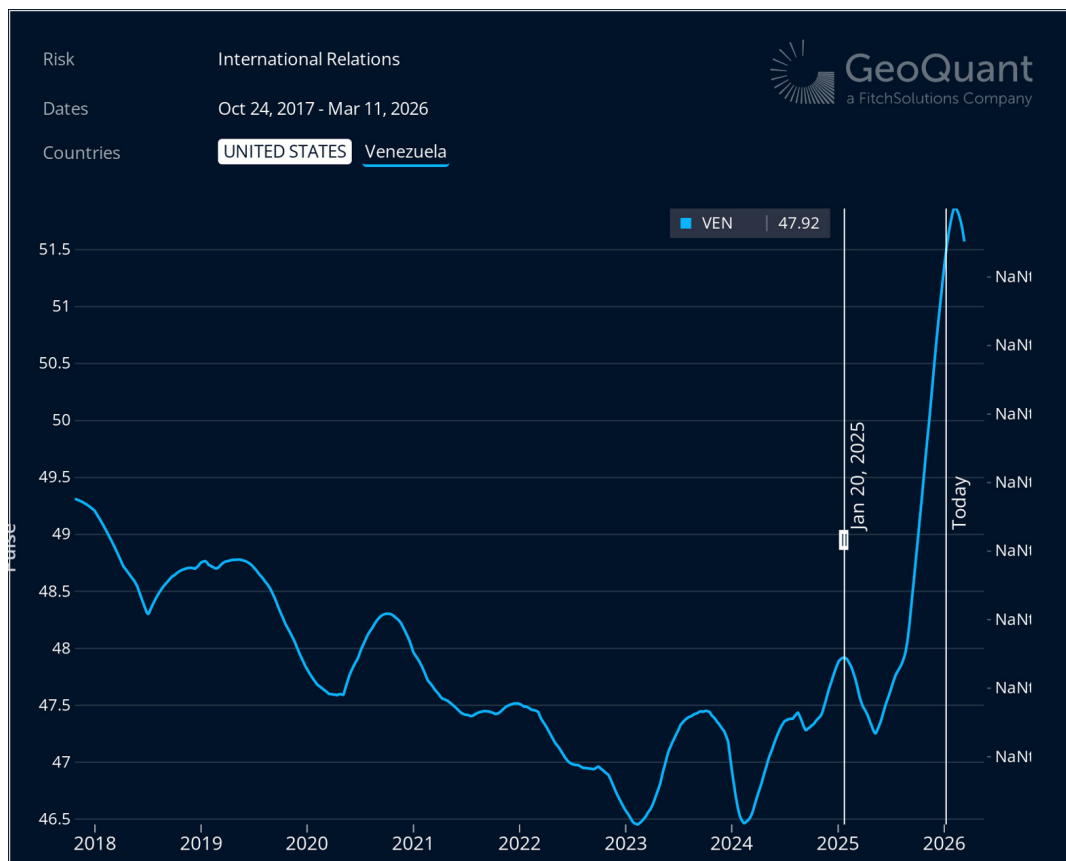
Venezuela: Regime Change Unlikely in Caracas as U.S. Avoids Boots on the Ground Spotlight

- Venezuelan President Maduro was removed by the U.S., but the Chavista government and regime remain in place and could well consolidate if it placates U.S. President Trump's demands around management of its oil industry.
- The U.S. public opposes military action which likely constrains any escalation that would require introducing substantial ground forces into Venezuela.
- The U.S. action against Maduro is a further blow to a rule of law governed liberal international order, a favorable trend for countries such as Russia and China that hope to use threats to extract cross-border compliance in claimed spheres of influence.
- Near term impact on oil price is likely minimal in terms of increasing/decreasing exports from Venezuela, though the prospect of increased exports could dampen in extraction capacity elsewhere.

Venezuela

U.S.-Venezuela Contingent International Relations (IR) Risk (Figure 1) is up sharply since President Donald Trump took office. After an initial decline, likely regression to trend, bilateral IR Risk spiked in the wake of the U.S. deportation of Venezuelan asylum seekers to the horrific Cecot prison in El Salvador. The Risk kept rising as the U.S. began a bombing campaign against small boats it claims were trafficking drugs in the Caribbean and gradually augmented U.S. Navy resources in the region, culminating in the attack on 3 January.

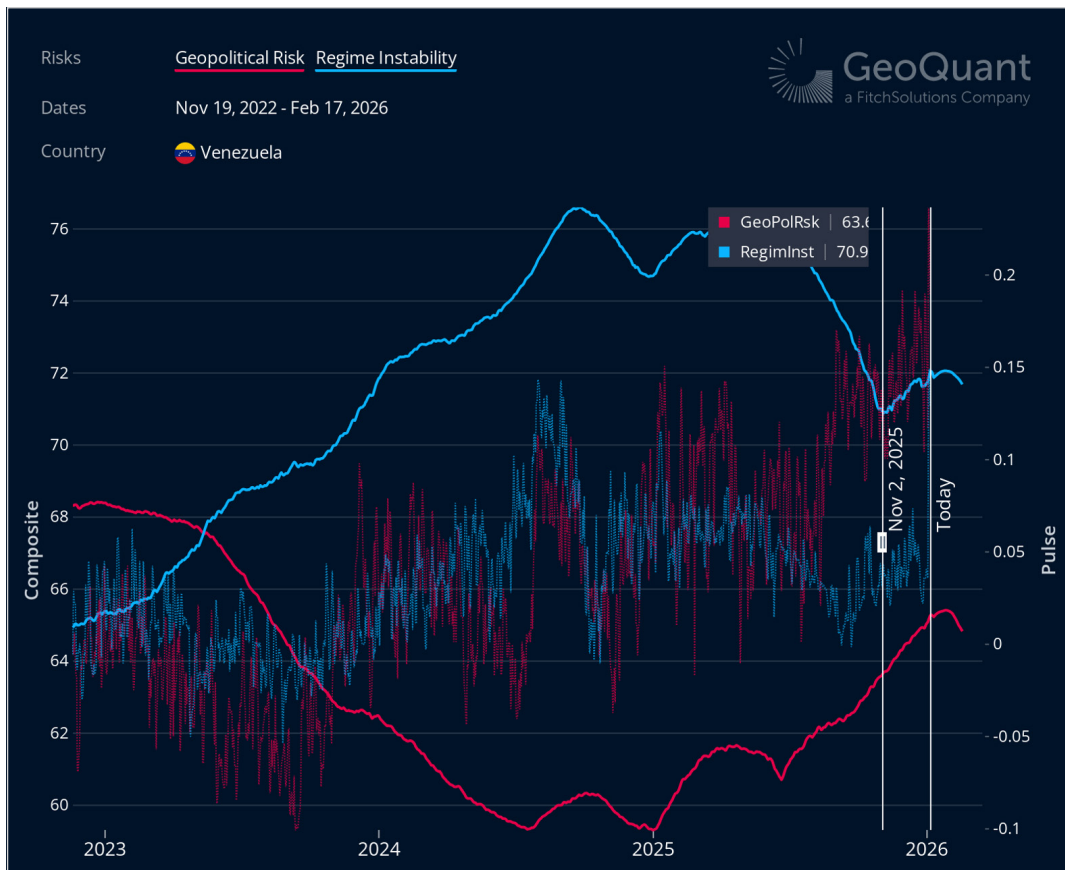
Figure 1.



Source: GeoQuant

Similarly, Venezuelan Geopolitical Risk (Figure 2) has risen steadily since early summer. What began as saber-rattling in the Caribbean escalated into the capture of President Nicolas Maduro. Maduro has been transferred to the U.S. on drug trafficking charges, but the capture did not remove the remaining Chavista government from power – which remains intact and even defiant – much less the broader regime that Maduro fronted.

Figure 2.



Source: GeoQuant

Meanwhile, our Regime Change Risk indicator remains well below where it was a year ago. The Chavista regime is not personalist and does not rely upon Maduro alone. Regime change would require boots on the ground and an extended military occupation engaged in “nation-building.” The Trump administration appears to be looking for a basis to claim regime change to claim victory, but a durable transition toward democracy remains unlikely.

Despite suggesting that the U.S. would now run Venezuela, Trump is not likely to pursue a deeper involvement in governing the country, especially if the residual government placates him. Rather, the Trump administration has positioned itself to keep external pressure on Caracas to force negotiations and extract economic concessions around the oil industry. Trump and the press have short attention spans and will eventually move on if the Venezuelan government enters negotiations and makes concessions on management of its oil industry.

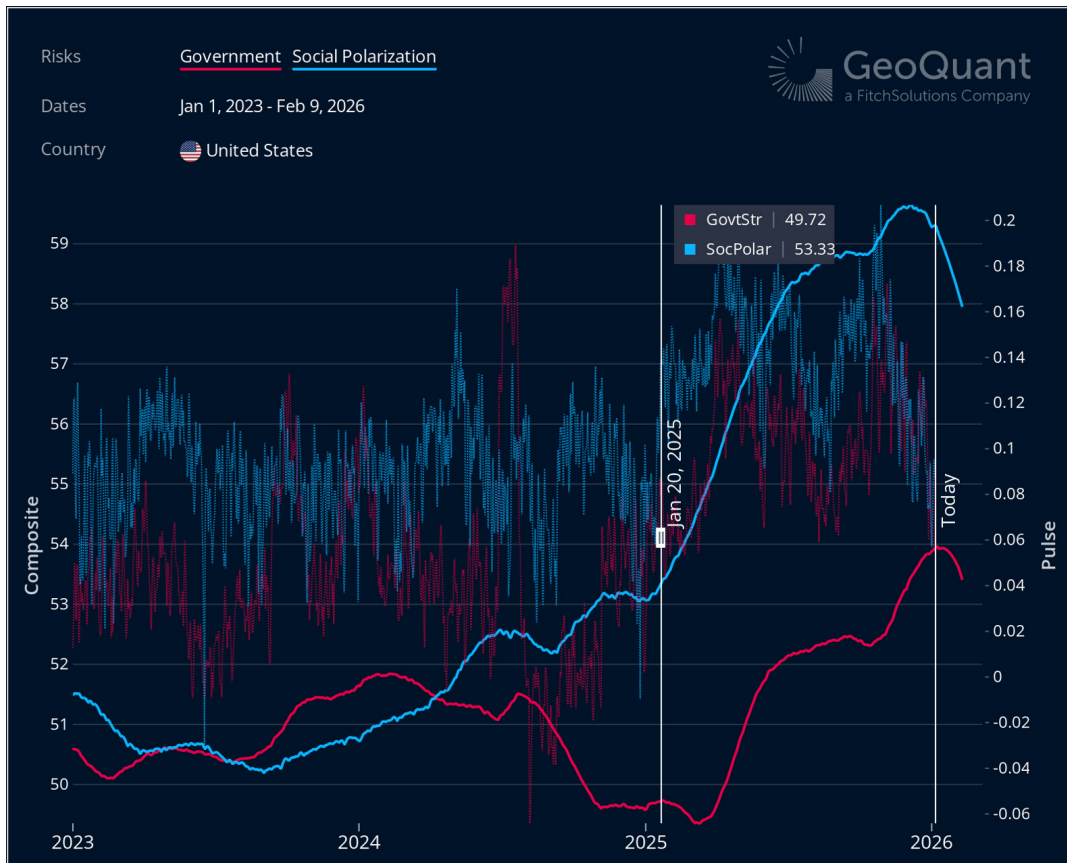
The ongoing government in Caracas may well open enough to negotiate quietly on some matters but will not accept a democratic transition. That works for Trump who has already rhetorically discarded Maria Corina Machado, the opposition leader who could have won the 2024 presidential election if she had been allowed to run and if the race had been free and fair.

In sum, the Venezuelan political regime looks likely to survive. It may have to bargain over its management of its oil industry, but that process could strengthen the regime as it will require loosening international economic sanctions. In turn, Regime Instability and Geopolitical Risks both fall in our forecast.

United States

An interesting signpost will be how the U.S. public responds. Surveys indicate that a substantial majority, ~75%, oppose military action against Venezuela, likely reflected in the ongoing rise in Government Risk. There appears to be little domestic appetite for prolonged engagement with Venezuela, see the concurrent rise in Social Polarization Risk. Furthermore, immediately after the ouster of Maduro, much of the Democratic Party's leadership put out statements condemning the raid.

Figure 3.



Source: GeoQuant

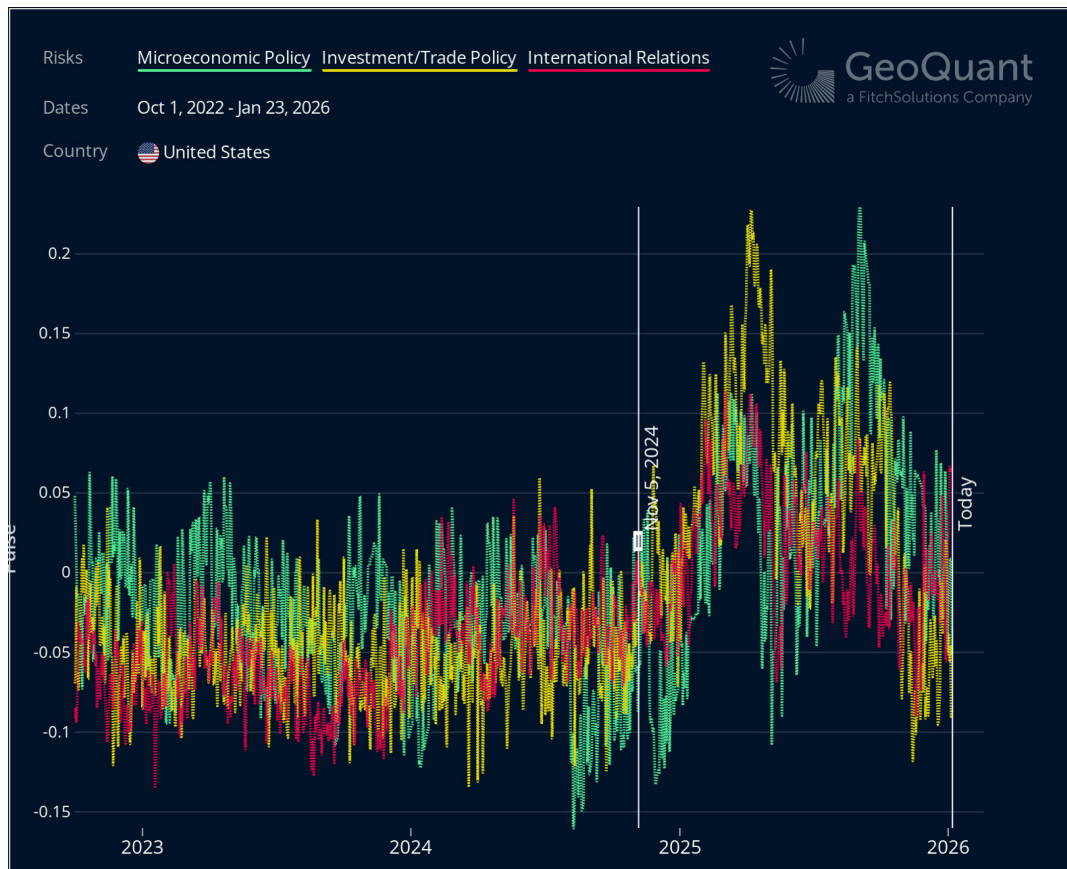
Normally, the general public would be unlikely to push back on a U.S. president's external military actions. After all, positive mainstream press coverage of a successful military action – which Maduro's capture was – would condition any popular response in the president's favor. But these circumstances are not typical; Trump's coalition seems to have little appetite for neocon-style foreign adventures.

Indeed, this action could end up blowing back a bit on Trump domestically, which likely explains why the administration is seeking to take credit for ousting Maduro but not signaling the sorts of actions that would end the Chavista regime. The likely outcome is a deal with the remaining government in Caracas, and that would likely serve regime survival. A U.S. invasion to affect regime change or a democratic transition remain unlikely.

International Relations:

Unilateral U.S. action against the Chavista regime reinforces President Trump's challenge to the diplomatic and economic liberal international order, reflected in high and volatile U.S. Microeconomic, Investment/Trade, and Rule of Law Pulse Risks since the 2024 election (Figure 4). Instead, Trump's actions favor a return to "great power spheres of influence" over common rules and order. This is favorable for Russia and China – even if Venezuela is an "ally." Moscow has criticized the move and will exploit it rhetorically to demonstrate Western hypocrisy in light of its own regional claims. Both powers could quietly welcome expanded U.S. engagement in the Western Hemisphere as they pursue their strategic goals in Eastern Europe and the Indo-Pacific.

Figure 4.



Source: GeoQuant

European governments have avoided openly criticizing the operation, largely motivated by the desire to remain on cordial terms with Washington over trade and Ukraine negotiations. EU attention quickly shifted to Greenland after President Trump reiterated his desire to seize the territory. Such a move would risk an irreversible split within NATO which, even for a Trump administration skeptical of the alliance, would dramatically outweigh any immediate strategic gains.

Markets:

Oil price impact is likely minimal in the near term amid a supply glut as further capacity is unlikely to come online anytime soon. But the prospect that cheaply extracted Venezuelan oil exports could ramp up in the future should give pause to expansion of productive capacity in the U.S. and elsewhere. That raises the expected price of oil over the medium term, especially if the Venezuelan regime survives and oil production remains down.

About GeoQuant

GeoQuant is an innovative AI-driven data and technology company, acquired by Fitch and now part of BMI, that is transforming the way the world's leading organizations are quantifying, integrating, and navigating political risk.

By fusing PhD-level political and computer science, GeoQuant generates high-frequency, quantitative measures of risk that are systematic, back-testable, and predictive.

The result is real-time updates for over 40 political risk indicators in more than 140 countries, and analytics that enable you to foresee risk trends and make proactive moves.

GeoQuant data, modelling and advisory services have been used to successfully inform the asset, risk and sovereign ESG strategies of leading institutional partners.

About BMI

In an uncertain macroeconomic environment, BMI's systematic, independent and data-driven market insights, analysis and forecasts enable you to recognize and assess risks and opportunities across 200+ markets and 20+ industries. For more than 40 years, we have provided impartial and transparent analytics, data and research

across themes, countries and sectors, with deep insight into emerging markets. Our detailed intelligence is frequent, consistent and systematic, enabling you to easily make comparisons and interrogate data to support your strategic plans and investment decisions.

Learn more at fitchsolutions.com/bmi/geoquant

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