

Chávez Rattles Takeover Saber at Steel Company and Banks

The New York Times
May 7, 2007

CARACAS, [Venezuela](#), May 6 — President [Hugo Chávez](#) is deepening efforts to assert greater control over the economy by dictating changes to the operations of a large Argentine-controlled steel maker and threatening to nationalize banks controlled by financial institutions from the United States and Spain.

Markets here are reacting with distress to his latest moves. The main index of the Caracas stock exchange fell 2.7 percent on Friday, while Venezuela's currency, the bolívar, also weakened about 3 percent, to 3,950 to the dollar in unregulated trading as rich Venezuelans rushed to take money out of the country.

The announcements by Mr. Chávez are part of a broader project to reconfigure Venezuela's economy to strengthen worker-led cooperatives and state enterprises. Mr. Chávez is also trying to build regional financing alternatives to the [International Monetary Fund](#) and the [World Bank](#), to be financed largely by his government.

Mr. Chávez dressed down the foreign owners of the steel maker Siderúrgica del Orinoco over the weekend, asking them to halt exports and focus on meeting domestic demand. The company, also known as Sidor, is controlled by Techint Group of Argentina. Mr. Chávez said he had summoned Paolo Rocca, the company's chairman, to Caracas for talks.

"I'll grab your company," Mr. Chávez said in a taunt to Mr. Rocca on Saturday at an event celebrating the creation of a single Socialist party among his followers.

"Give it to me, and I'll pay you what it's worth," the president said. "I won't rob you."

Mr. Chávez had threatened on Thursday to nationalize Sidor, and to take over the banking system unless banks agreed to offer low-cost financing to domestic industry.

Mr. Chávez made similar threats before nationalizing telephone and electricity companies.

Erratic policy shifts have led foreign direct investment to plunge in Venezuela, the only country in Latin America besides tiny Suriname to register an outflow of those investments last year, of \$543 million.

Comparable economies in the region enjoyed high levels of direct foreign investment, with Argentina receiving \$4.8 billion and Colombia \$6.3 billion, according to the United Nations Economic Commission for Latin America and the Caribbean.

Cushioned by high oil prices and \$25 billion in reserves, Venezuela is still distant from a painful crash of the type that plagued it in the wake of past oil booms, according to economists. But problems like a widening budget deficit are growing more acute as growth slows from last year's torrid 10.3 percent.

"There is fear that all of Chávez's different spending projects will lead to a depletion of funds," said Francisco Rodríguez, a former chief economist at Venezuela's national assembly who teaches at [Wesleyan University](#). "Chávez's threat to the banks may reflect increasing resistance in the sector to rolling over internal debt."

Indeed, both Mr. Chávez and Venezuela's banks face a dilemma as a surge in public spending widens the budget deficit this year to an estimated 4.9 percent of gross domestic product from 1.8 percent in 2006. The government can cover that shortfall by getting banks to buy its debt or by printing more money, a choice that could cause inflation to jump.

The government is already trying to reduce inflation, the highest in Latin America at 19.4 percent a year. And officials are grappling with continuing scarcity of foods subject to price controls, like beef, eggs, sugar and milk. Producers say the controls have made it hard to meet demand while labor costs are soaring.

Showing exasperation with these claims, senior officials are growing increasingly adversarial in their treatment of private industry. Elías

Jaua, the agriculture minister, said last week that a “destabilization campaign” was to blame for the short supply of some food products.

Beyond such talk is a redistribution of income under Mr. Chávez, making imports like cellphones and refrigerators and services like modest plastic surgery procedures more widely available. Monthly stipends to the poor or indirect subsidies to buy food and consumer goods, channeled through an array of social welfare programs, have also lifted corporate income.

Profits for the banking sector climbed 33 percent in 2006, led by a more than 100 percent jump in credit card loans and a 143 percent increase in automobile credit, according to Softline Consulting, a financial analysis firm here.

Blessed with such profits, few bankers are explicitly critical of Mr. Chávez. In fact some express admiration.

“President Chávez is saying it’s the job of all of us for Venezuela to press ahead,” Francisco Aristeguieta, president of Citibank Venezuela and director of the Venezuelan Banking Association, told the government’s official news agency.

Still, economists fear a bill is coming due for the spending spree and the nationalizations. They point to the costs of reimbursing foreign owners for seized assets and meeting their debt obligations, which could be more than \$10 billion for oil projects the government is taking over from American and European companies.

Unregulated trading in the bolívar has become the most visible indicator of eroding confidence.

Meanwhile, despite Mr. Chávez’s excellent record of meeting foreign debt obligations, investors have begun selling Venezuelan bonds amid confusion over his announcement that the country would exit the International Monetary Fund. Investors could demand quick payment of billions of dollars of the bonds if Mr. Chávez goes through with leaving the fund, setting off a possible default.