

# Dramatic drop in profits for largest corporations in Latin America

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Combined net profits of the largest 500 companies operating in Latin America dropped by 41 percent in 2014 relative to the year before, according to the Spanish daily *El País*. Net sales fell 4.5 percent.

This is the first time that negative economic figures have been posted for two consecutive years. In 2013, however, the decline reached only 3.9 percent compared to the previous year. Driving down profits and sales were “the fall in the prices of oil and raw materials and the depreciation of local currencies,” reported *El País*.

These results confirm once again that the so-called emerging markets cannot and will not be able to offset the drop in production and consumption in the US and the EU, as was promoted following the economic contraction in the industrialized world in the wake of the 2008 financial crisis.

The AE 500 ranking, developed by the study group AméricaEconomía Intelligence, emphasized that the figures reflect a negative growth tendency that started developing earlier than two years ago.

According to AméricaEconomía, “the 500 largest companies lost \$141 billion in sales in 2014 and \$47 billion in profits.”

The energy sector was the hardest hit. Brazil’s Petrobras, involved in a massive corruption scandal, lost US \$8.1 billion in 2014, a heavy blow to state revenues.

Petrobras’s losses are followed by Mexico’s state-owned Pemex, “which beginning [this week] is opening up to private initiatives,” and “has suffered a decline of \$18 billion in losses due to falling oil prices and faltering production,” *El País* reported. It is significant that the *El País* article compares the present economic slowdown to the 2001-2002 crises. *El País* is not alone in expressing concern about Latin American economic

deceleration. A publication by the US investment bank Morgan Stanley lists several Latin American countries as among the next most unstable regions in the world, following the EU-Greek crisis.

According to the Peruvian business daily *Gestión*, citing Bhanu Baweja, head of emerging market cross asset strategy for UBS AG in London: “There is no improvement in profits, exports and direct foreign investment. It isn’t clear that they are advancing toward the promotion of a greater growth in productivity.”

Foreign economists’ concerns are more clearly spelled out by Bank of America, Peru: “In the bonds market in local currency, foreign investors hold half of the 59 percent of the current Mexican debt, the highest percentage for developing economies. Peru, Malaysia, Poland and Indonesia are also exposed, as foreign investors hold at least 39 percent of their debt.”

The heavy debt load could “destabilize a country very rapidly,” said Sergey Dergachev, portfolio manager of Union Investment Privatfonds GmbH.

According to Andres Almeida, director of AméricaEconomía Intelligence, “This is a new stage for the Latin American economy. The past will not be repeated.”

At the heart of the problem is the slowdown in China’s growth. Given the recent collapse of the Chinese stock market, the concerns of foreign creditors over Latin American foreign debt are justified. They fear contagion from the recent Greek experience with the EU and the de facto default of Puerto Rico in the Americas.

As the economies continue to decelerate and Latin American currencies devalue relative to the dollar, paying the foreign debt will become more difficult. It is highly probable that in a few months or years, some

countries in the region will find themselves in the position Greece and Puerto Rico face today. The bankers' answer will be the same: ruthless attacks on jobs, workers' benefits, and democratic rights. This will inevitably trigger an intensification of the class struggle on the American continent.



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