



## EU-Latin America: areas of cooperation

**Pablo Hernández de Cos** – Governor, Banco de España

**Carlos Fernández Valdovinos** – Minister of Economy and Finance, Paraguay

**Alejandro Pérez** – Chief Administrative Officer, BNY Mellon

### Pablo Hernández de Cos

Good morning. Thank you all for joining us for this panel discussion. Perhaps the main novelty of the informal Ecofin that is taking place today and tomorrow is precisely the presence of the ministers of finance of Latin America and the Caribbean here with us. The main reason for this is that Spain attaches great importance to the relationship with this region and the need to strengthen it, especially in an environment as complex as the one that we currently find ourselves in, with geopolitical tensions and high probabilities of fragmentation. Intensifying our links could, at least partly, help to avoid some of the negative consequences of this environment.

Allow me to mention that the Banco de España's research staff have produced several papers that try to put some numbers on how increasing the degree of integration could be very beneficial, not only for Latin American countries but also for Europe and Spain. There are indeed already some really large, cross-sectoral projects under way. However, we are going to focus today on two of the main priorities, for us and also for the Latin American countries, namely the green transition and digitalisation. As part of the informal Ecofin, a meeting with the Ministers will take place today to discuss precisely how to make proposals and projects concrete and how to monitor them, to reach agreement and to focus on what the EU-CELAC summit in Brussels agreed in July. Today, we also wish to consider what the private sector might do to help Latin America in this endeavour.

For this discussion we have two distinguished speakers. First, I have Carlos Fernández Valdovinos, who has recently been appointed Economic and Finance Minister of Paraguay. An economist with a PhD in Economics from the University of Chicago, he also has a Master

of Science in Policy Economics from the University of Illinois. Carlos and I have been colleagues: he was chair of the Central Bank of Paraguay from 2013 to 2018. His vast professional career includes numerous positions, not only at the Central Bank of Paraguay, but also at the World Bank and the IMF.

Second, here is Alejandro Pérez, who has been the chief administrative officer of BNY Mellon since 2021. Prior to joining this bank, Alejandro spent most of his career in various leadership roles at Goldman, Bloomberg and other financial firms. He has a mechanical engineering degree from the University of Alabama and an MBA from the Stern School of Business at New York University. Welcome to both of you.

My proposal would be to divide the discussion into three blocks. First, you will give us your views on the macro environment and how this may influence the achievement of the objectives I have mentioned. Then, we can go from general to specific, to consider the funding of these investment needs, both for the climate and digitalisation. We will finish with a third block on how Europe could help in this endeavour. Carlos, what are the main challenges that you see economically and socially in the region? Do you consider that the macro environment may influence the objectives in these two domains?

### Carlos Fernández Valdovinos

Thank you very much for the opportunity to be here and present the views from Paraguay, probably a common view that we have in the Mercosur at least. I usually say that the pandemic was like a tough soccer game, probably more like a rugby game instead of soccer, where we were injured. We suffered a lot of kicks and continue to be injured. We are still recovering. We are not fully recovered. I mean injured not only in the economic part but also in the social part and on the

environmental side. The two last injuries were put aside, given the urgency in the health part and on the economic side.

As we continue to recover, at least in Paraguay, we really believe that, given what happened then, given what continues to happen, because shocks are still there – the Russia-Ukraine war is a shock. Rising commodity prices until recently were another shock. Logistical problems were another shock. Given all the shocks, the not so simple recipe but the one that we believe has to be the answer to all these problems is further integration. When I say ‘further integration’, I mean further integration regionally, in the Mercosur part, and more integration between the different economic blocs.

We are having a meeting today between ministers of finance. More than 30 ministers of finance will gather here to discuss, talk, exchange ideas and so on. It is important to talk, but more important than talking is doing the things. We have a great opportunity to do something, not as fully Latin America but at least the Mercosur part. We have a great opportunity to walk the talk. We are at the door of signing an agreement between Europe and the Mercosur. What better signals that we truly believe in integration than signing this agreement that was negotiated for 20 years? We are almost there.

True, there are some brand-new conditions that were a surprise for us in Mercosur, but we are convinced that this is the way to proceed going forward in order to secure more development in the economic, social and environmental parts, further integration. Even though we were taken by surprise by the new conditions, we are working in order to submit a proposal, probably a little bit different to what was proposed to us. We are convinced that we need to close this agreement as soon as possible to show the world that we can work together. That is going to be an answer for this transitional post-pandemic. It is going to be an answer for a better future for all, for Europe and for Latin America. It is going to be a strong signal of how to proceed going forward.

These are difficult times. All countries are deeply into debt, given the pandemic. Some of them are still trying to control inflation, especially here in Europe. They continue to increase interest rates in order to tame inflation here. In Latin America, inflation has started to revert to being more under control. If we have further shocks in the future, it is going to be more difficult to control or to try to do some counter-cyclical policy, given the lack of fiscal and monetary space. That is the reason why we need to devise new ways in order to secure strong growth in the future. Again, going back to the first topic, we believe that further integration between blocs will be crucial going forward. We cannot make any excuse. After 20 years of talking, we need to sign the agreement.

No, it is not the best option, but I am still optimistic that we can continue to develop and to contribute to the world development, not only from the economic point of view, but also from the environmental point of view. Latin America has a lot to do for the future of the world in all the different areas. I am optimistic about the future. These are difficult times, but, let me tell you

something, sometimes people ask us in Paraguay, ‘How do you do, because you are in the middle of Brazil and Argentina? That is tough territory.’ We say, ‘Yes, that is true. It is a tough territory, tough neighbourhood, but it has been tough during the past 200 years, so we are used to surviving in that hostile environment.’ For us, the world, as it is today, is a difficult one, but we believe that we can survive. We can continue to develop in a sustainable way, and we are going to do our part. Hopefully we can do our part together with Europe and together we can contribute to a better world.

### **Pablo Hernández de Cos**

Let us now consider the perspective of the financial industry. Alejandro, how do you see things from this macro perspective?

### **Alejandro Pérez**

The comments offered by Mr Fernández are very candid and real. In the region, there has always been uncertainty, volatility and, unfortunately, a bit of a stigma when it comes to the sociopolitical circumstances. From a private sector point of view, we believe, operating in the region, that it is important to separate the politics from the financial policies and regulations. At the end of the day, we would really love to see – I am selfish, being originally from the region – policies and regulation that truly protect the investors and incentivise the flow of capital into the region.

We are going to talk about digital transformation and evolution and the green transition in the region. We truly believe that, while there has been advancement in Latin America, Latin America is not yet operating at its full potential. There is a tremendous opportunity for Europe, through this agreement, to support the levelling-up of the region, and then together be able to make an impact across the globe, as Mr Fernández pointed out. The private sector is eager to be part of that, but at the same time, it can only be done if there is true consistency and harmonisation across the various economic blocs—not separation and fragmentation.

### **Pablo Hernández de Cos**

Let us move on now to the more specific part. Carlos, in these two areas, digitalisation and climate, how is Paraguay planning to finance the initiatives needed to achieve our goals. Also, to give Alejandro the opportunity to reply, what are your expectations from the private sector in this respect?

### **Carlos Fernández Valdovinos**

Let me complement what Alejandro was saying with the way we see things in Paraguay. What should be the role of private sector versus public sector? Going again to the soccer example, the public sector is the one that has to make sure that the field is in good condition, that you have the net in good condition and that you have all the line markings, but it is the private sector that is going to play the game. The public sector has to ensure only that there are rules and the private sector can play by the rules.

This is the complementation that we are expecting to see between public and private sector. To give you some

statistics, in Paraguay the public sector represents only 15% of the GDP. 85% of the GDP comes from the private sector. There is no way you can grow over time just relying on the public sector. It would be a big mistake. Going forward, we expect to see a game with the same complementarity between both sectors.

True, there were some not very easy or unfair experiences for some companies, especially from Spain, going to Latin America during the 1990s. At the end, they suffered some nationalisations. They were damaged by some politics, taken by governments in Latin America, and we have to take the responsibility for that. Even though we are quite a homogenous region, we are similar but not the same. The private sector has to see also the history of the different countries. They can get the knowledge of what every country did over time.

For sure, after knowing which country did this and what country did that, they will feel more comfortable trying to again embed in Latin America, or in some countries in Latin America where they can feel secure that, over time, they are going to invest money and be able to gain money. It is fair for you to put in the money as an investor and then take out the money, because you need to give returns to all the shareholders. There are some countries where you are not able to take out the money, or, even though you are able to take out the money, the value of the money, due to inflation, is totally different from the money that you put in.

We are open, especially in Paraguay, because I have to promote my country a little bit. This 5 October, we are celebrating the 80th anniversary of our national currency. How many countries in the world have a national currency that can celebrate 80 years? There are not many. Our country can offer stability. We have never had a single case of nationalisation, so we take the rule of law seriously over there.

Going forward, the private sector will be important for these two areas that you are mentioning: digitalisation and green policies. I can talk too much about both but let me just mention one thing regarding the green revolution. It is going to be very difficult for you to find a better country than Paraguay, for example, to produce green hydrogen. I am saying this because of the way it is being produced. What do you need for that? You need water and energy. Paraguay is situated in one of the largest water reservoirs in the world, the aquifer Guarani. We are right in the middle of that. Yes, we have to be careful regarding how we use that natural resource that is very valuable, but we have enough water to do that.

Regarding energy, 100% of our electricity is being produced in a clean and renewable way, using the hydroelectric power that we have, sharing with Brazil or with Argentina. One is Yaciretá. The other is Itaipú. The one that we have by ourselves is Acaray. There is no country in the world that produces 100% of electricity through this means, clean and renewable energy, but that is not enough. You need more energy. Paraguay is one of the few countries, and the only country in the region, that has excess energy. What does that mean? We are exporting energy. If you look at the numbers, we

are the largest exporter of energy in the world. Is that the best way to use electricity? No, the best way to use electricity is to use it inside a creative industry that will create employment.

Going back again, there is no way that we can do an environmental revolution if we are not using that energy, complemented with water, to start producing an alternative type of energy, in this case green hydrogen. Going forward, we have the resources. We need the knowledge. We need the capital, because these are expensive, so we need the private sector to go and invest there. Europe especially has a lot of knowledge. European companies will find a stable environment on the macro side, on the rule of law, and all the materials that they need to produce green energy. We are expecting to see the European private sector going there to carry out this revolution.

### **Pablo Hernández de Cos**

Turning again to the private sector, Alejandro, what role do you see for financial firms in financing the climate and digital transition, particularly in the region? Perhaps even more importantly, what could be improved in terms of the regulatory environment? You mentioned the issue of harmonisation, which is very relevant, but perhaps there are other issues that you would also like to stress.

### **Alejandro Pérez**

I will continue on what Mr Fernández was talking about because it is very important, particularly I will continue on what Mr Fernández was talking about because it is very important, particularly when it comes to the green transition. It is very obvious that Europe has led the charge when it comes to the green transition and tackling climate change, and it has done a phenomenal job. It is also very clear that that discussion has been pretty much focused in Europe. It has been very intra European, and it is now time to extend that beyond Europe. Unfortunately, the US is not yet fully ready to engage, but Latin America is very much willing to do so.

It is important to do this for a couple of reasons. One is that the green transition discussion, when it comes to corporate disclosure rules, is creating some extraterritorial implications that will become a problem. Similarly, most important is the fact that climate change is a global issue and the solutions we need must be global in nature and not just regional.

When the discussion on green adaptation is taking place, there is a major emphasis on capital markets and capital markets policy. This is obvious. As we just heard, the public sector alone will not be able to finance the infrastructure needed to tackle climate change. In order to expand that, we need to focus on the financial markets ecosystems. Financial markets, by nature, operate well at scale, particularly when we bring diverse investors into the mix. I believe that it is important for Europe to give the benefit of its experience to the region of Latin America and for Latin America to provide its perspective to Europe as well.

As I was saying before, there are certain implications that are important to keep in mind. Between the

two regions, there is a lot of momentum that can be created by collaborating and creating that harmonised policy that will exponentially increase the value of the proposition and then incentivise others to join as well, which is what is most important. This cannot just be a Europe and Latin American problem. This has to be, as I said before, a global mandate. The private sector is eager and willing to engage, we just need to make sure that it is done in a way that is consistent across the globe.

### **Pablo Hernández de Cos**

I will give you the last word, Carlos. You were already touching on the final question that I had, which is precisely how you see the role of Europe in order to help you in this endeavour of digitalisation and, in particular, combating climate change. You know that Europe is leading some of the discussions, in particular on taxonomy and disclosure. Do you consider that Europe is playing a leadership role here, or do you feel a bit abandoned and that we are just walking the walk, but completely alone and losing the others?

### **Carlos Fernández Valdovinos**

As I mentioned, we need greater integration between both. We have strong historical ties. There have always been, especially with Spain, since Spain is really the door to Europe for Latin America. It's not actually the door. It is the hinge: the one that actually opens or closes the door, so this is a different and more important role than a single door. Spain is the hinge towards opportunities.

This is in the interest not only of Latin America but also of Europe. Otherwise, if you are not taking the place, somebody else will. It is true, if you look at the stock, that European investment is larger, probably, than any other region in Latin America, maybe except for the US, but this is the stock. What about at the margin? At the margin, Europe is losing to China and Saudi Arabia. This is not to blame the two of them that are looking after their own interests. It is in the best interests of Europe also to, again, regain the position that the continent has had in the past and be a big contributor to the development of our region that is historically linked to Europe, and that is going to be beneficial also for Europe in itself.

### **Pablo Hernández de Cos**

Thank you very much to both of you. That was a good discussion. Let me try to wrap up with four or five ideas that I have taken from our conversation. The first one, as you, Carlos, were mentioning at the very beginning, is this idea of integration as the main instrument to address the current challenges of the globalisation process: to fight them with further integration. You were referring to integration within the region and of the region with Europe in this case.

The second idea: Alejandro, I fully share this idea of harmonisation. This is absolutely crucial for the private sector. The banking sector is always asking us for more harmonisation and of course it is also particularly relevant in the region if we want the private sector to be involved in the financing of all its needs.

The third idea is complementarity. We cannot, and should not, see the private and the public sector as enemies, when the reality is quite the opposite. Carlos, you also made a very important point, which is this need for us to discriminate and differentiate. We tend, in Europe, to treat all Latin American countries in the same way. In my view, with this idea of discrimination, we can even create an incentive for countries to behave better. The market has always been an important incentive for doing so. This is at least what I would like to think.

Finally, we very often claim that Europe has a leading role to play, especially in the fight against climate change. Perhaps we should be a bit more modest. We might want to be the leaders in this area, but if we want other regions to accompany us in this endeavour and, in particular, in financing the transition that is needed, we have to listen more to their needs and specific situation. With this, I will end. Thank you very much, Carlos and Alejandro, for being here, and of course to you all. Thank you.