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Spanish premier promises change in labor market

By Jonathan House

MADRID — Spanish Prime Minister José Luis Rodríguez Zapatero on Wednesday pledged to tackle long-awaited labor-market changes as new data showed one of Europe's worst unemployment crises continues to deepen.

Mr. Zapatero's proposed changes include more flexibility for collective wage bargaining, reducing working hours to preserve employment and improvement of job-placement services.

Banks are adding to pressure on the government to rein in one of Europe's biggest deficits.

They come as Spanish banks are sending signals that their interest in public debt is on the wane, putting further pressure on the government to rein in one of Europe's biggest deficits.

The prime minister said his labor-market proposals would preempt the need for more controversial steps, such as a reduction in Spain's high dismissal costs. Economists say those costs discourage hiring as well as the creation of a new type of contract they say would simplify hiring and firing.

He proposed that unions and employers discuss the new measures starting early next year. "I firmly believe our commitment should be to strengthen our companies without harming workers," Mr. Zapatero said.

Earlier, Spain's labor ministry said November jobless claims were up 29% from a year ago to just under four million. Eurostat said Tuesday that Spain had a 19.3% unemployment rate in October, the second-highest in the EU behind Latvia.

The rising trend in unemployment comes as banks sent a worrying signal of their borrowing intentions to the government. Many investors worry that governments are "overborrowed" as they cope with the lingering effects of the financial crisis and economic downturn.

According to ECB data, Spanish banks and money-market funds have increased their government debt holdings by nearly €78 billion ($118 billion) over the last year—the euro zone's biggest jump—as the government's budget deficit has ballooned.

The European Commission, the European Union's executive arm, expects Spain's deficit to reach 10.1% of gross domestic product this year, making it the euro zone's third-largest behind those of Ireland and Greece.

But many Spanish banks say they have now built up their government-debt holdings to levels


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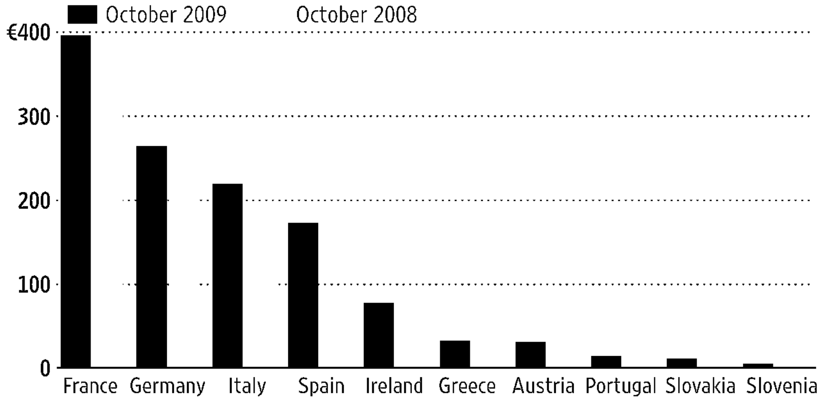
they have traditionally sought when interest rates are low. They also say these bonds look less attractive as the euro zone emerges from its worst recession in decades and the ECB plans to wind down crisis measures. But governments continue to ramp up debt issuance.

Banco de Sabadell, Spain's fifth-largest bank by market value, has sold all its holdings of 10-year government debt, a long-term instrument seen as particularly vulnerable to changing conditions. "We think yields will start rising," said Sergio Palavecino, Sabadell's deputy chief financial officer.

Rising bond yields mean lower prices for the securities and possible writedowns for bondholders.

Government bonding

Euro-zone banks and money-market funds' government debt holdings, in billions



Source: European Central Bank